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DECISION OF BOARD OF GOVERNORS TO REPLACE POSTMASTER GENERAL

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JOINT HEARING

BEFORE THE

SUBCOMMITTEE ON
POSTAL OPERATIONS AND SERVICES

AND THE

SUBCOMMITTEE ON
POSTAL PERSONNEL AND MODERNIZATION

OF THE

COMMITTEE ON
POST OFFICE AND CIVIL SERVICE
HOUSE OF REPRESENTATIVES

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DECISION OF BOARD OF GOVERNORS TO REPLACE POSTMASTER GENERAL

WEDNESDAY, FEBRUARY 5, 1986

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON POSTAL OPERATIONS AND SERVICES AND THE SUBCOMMITTEE ON POSTAL PERSONNEL AND MODERNIZATION, COMMITTEE ON THE POST OFFICE AND CIVIL SERVICE,

Washington, DC.

The subcommittees met, pursuant to call, at 10:10 a.m., in room 311, Cannon House Office Building, Hon. Mickey Leland (chairman of the Subcommittee on Postal Operations and Services) presiding.

Mr. LELAND. Good morning and welcome to this joint hearing of the Subcommittee on Postal Operations and Services and the Subcommittee on Postal Personnel and Modernization. We are meeting today to discuss the circumstances surrounding the resignation of Paul Carlin as Postmaster General and the appointment of Albert Casey to the same position.

We have yet to receive any specific information as to why Albert Casey was hired and why Mr. Carlin resigned.

This abrupt change in Postmasters General has caused a great deal of concern and uncertainty in the postal community, because it has provided only many questions and no real answers.

Questions like: What is it that Albert Casey was brought in to do in his few months as Postmaster General?

Is he going to slash management ranks like he did at American Airlines?

Is he going to move toward privatization of postal services?

Is he expected to turn things around at the Postal Service and, if so, how?

I hope we can find at least a few answers today.

Our witnesses today will be Postmaster General Albert Casey and John McKean, Chairman of the Postal Service Board of Governors.

I would like to take this opportunity to congratulate Mr. Casey on his appointment and welcome him in his first appearance before the committee.

I would also like to thank you, Mr. McCloskey, for your great cooperation and leadership as chairman of the other postal subcommittee, the Subcommittee on Postal Personnel and Modernization, and for your cooperation in putting this hearing together.

I also thank my colleagues, in particular my ranking minority member of the Postal Operations Subcommittee, Mr. Horton.

With that let me just yield to my colleagues and ask if they have opening statements.

Mr. McCloskey.

Mr. MCCLOSKEY. Thank you, Mr. Chairman. I do have an opening statement.

I would like to welcome our witnesses today, Mr. John McKean, Chairman of the U.S. Postal Service Board of Governors, and Mr. Albert Casey, newly appointed Postmaster General. We are glad to have you both here to testify at this joint subcommittee meeting.

I would like to note that this hearing does not constitute the annual oversight hearings required by statute. Rather, this is a special oversight hearing directed at the circumstances surrounding the firing of Mr. Carlin and the hiring of Mr. Casey. Needless to say, these events have been the source of a great deal of controversy, with at least one newspaper indicating that these actions of the Board were directly related to the refusal of Mr. Carlin to award large contracts to specific firms. Such an accusation, even if not true, does serious damage to the Postal Service at a time when the entire country is wrestling with the harsh realities of deficit reduction.

This committee also has been greatly concerned with the overall status of the U.S. Postal Service. When the two postal subcommittees held their annual oversight hearings last summer on the operations of the Postal Service, I and my committee colleagues placed particular emphasis on the need to solve the alarming deficit problem. At that time, the financial situation was quite serious, with a projected fiscal year 1985 deficit of over $500 million. Both the Board of Governors and former Postmaster General Carlin pledged that the deficit would be brought under control.

In the final two accounting periods of fiscal year 1985, the Postal Service was operating in the black. Through various cost-cutting measures this alarming deficit had been brought under control—to $251 million from an initial projection of over $500 million. Mr. Carlin took hold of the situation and managed to save what could have been a financially disastrous year. Prospects for the 1986 fiscal year looked even better, with a projection that the deficit would be brought down to zero. I understand the most recent numbers, in fact, show a considerable surplus for fiscal year 1986. It would seem that management had carried out its deficit cutting mandate most effectively and, I might say, from all appearances hats off to Mr. Carlin. Mr. Bolger dug us into this deficit situation, Mr. Carlin got us out, and Mr. Casey is obviously here to do things and bring new emphases.

Along with turning around the financial situation, Mr. Carlin also placed renewed emphasis on service to the public. The U.S. Postal Service is not a corporation in the usual sense of the term. Its main function is not to make a profit, but to provide a vital service to the American people. With all its problems, the Postal Service generally has managed to maintain consistent and cost-effective service to all areas of the country, from the most urban to the most rural. Although individual post offices, especially those in extreme rural areas, may not be operating in the black, service to those areas must be maintained. It is essential that service remain the top priority of Postal Service officials.

Finally, Mr. Carlin instituted a new approach to the employer-employee relationship within the Postal Service. In a labor-intensive organization, such as the Postal Service, it is essential to foster a cooperative rather than a combative atmosphere in the workplace. Too often in the past postal employees have been treated as mere factors of production—the human side of personnel management has been neglected. I believe Mr. Carlin was aware of the need to reorient personnel management in the Postal Service and that employees could sense this shift in managerial attitude.

In view of the turnaround that seemed to be taking place under Mr. Carlin—in the financial, service and personnel management sectors of the operation—I and many others were a little mystified as to why the Board of Governors decided to fire him. Unless the optimistic picture painted at the end of fiscal year 1985 was false, there seemed to be no reason to change leadership at the top. I am particularly concerned about the recent newspaper articles which have linked Mr. Carlin's firing to his refusal to award bids to certain companies. I hope the reasons behind the firing will be made clear to me and the other members of the committee today.

Also I wish to obtain a clear, detailed understanding of the future of the Postal Service as envisioned by Mr. McKean and Mr. Casey. I would like to have an assurance of continued commitment to service and improved employer-employee relations, especially since the deficit problem seems to be under control.

Thank you, Mr. Chairman.

Mr. LELAND. Thank you, Mr. McCloskey.

Mr. Horton.

Mr. HORTON. Thank you, Mr. Chairman.

I would just like to take this occasion to welcome Mr. McKean, the Chairman of the Board of Governors, back before this subcommittee and this joint hearing of these two subcommittees and also to join with others in welcoming Mr. Casey, the new Postmaster General.

I too will be interested in the testimony and because of the time limitations I will wait until we have questions to address concerns that I have.

Mr. LELAND. Thank you, Mr. Horton.

The gentleman from Missouri.

Mr. CLAY. I have no opening statement, Mr. Chairman.

Mr. FORD. No thank you, Mr. Chairman.

Mr. LELAND. Mr. Hansen.

Mr. HANSEN. I thank the chairman. I have no opening remarks.

Mr. LELAND. Mr. McKean, we want to welcome you here. We certainly appreciate your immediate response to our invitation for your participation, and we welcome you and your comments. You may proceed.

STATEMENT OF HON. JOHN R. McKEAN, CHAIRMAN, U.S. POSTAL SERVICE BOARD OF GOVERNORS

Mr. McKEAN. Thank you, Mr. Chairman. I have an opening statement, if I may.

Chairman Leland, Chairman McCloskey, and members of the subcommittee, I appreciate the opportunity to appear today and

testify on behalf of the Governors of the U.S. Postal Service on the selection of a new Postmaster General.

As you know, we recently appointed Mr. Albert V. Casey, formerly chairman and chief executive officer of American Airlines and one of the Nation's most distinguished corporate leaders. He will be the Nation's 67th Postmaster General.

The appointment of a new Postmaster General is a significant development for the Postal Service and the entire postal community. It raises questions of great importance to the Nation's mailers and taxpayers about the direction in which this vital public service is heading, how well it will be managed and, ultimately, how well postal reorganization is working. These questions are of obvious concern to this committee, and I welcome the opportunity to discuss them with you today.

Under the Postal Reorganization Act, the Governors are charged by Congress with the responsibility to select the Postmaster General and set his or her term of office. The Postmaster General serves at the pleasure of the Governors. No decision that we make and no responsibility that we exercise is more important than choosing the man or woman best qualified to lead this institution.

It is the Postmaster General—and not the Governors—who manages the Postal Service and assumes responsibility for its day-to-day operations. Although the Postal Service has hundreds of thousands of dedicated employees, it cannot effectively meet its long-term responsibilities to the people of this Nation without senior management of the highest quality. Above all, that means a Postmaster General of great ability, dedication, and resolve.

We approached the task of making this appointment in full awareness of two distinct aspects of our responsibility.

In the first place, as the Kappel Commission intended, we function as a governing board of a vast business enterprise. One of the most important objectives of postal reform was to get politics out of the Post Office and enable it to operate more like a well-run business. With that objective in mind, Congress assigned to the governors, and not the President, the responsibility to choose the Postmaster General. We are expected to act quickly and decisively to make changes in top management when we see that change is needed.

At the same time, we understand that our responsibilites go well beyond those of any conventional board of directors. Under the Postal Reorganization Act, we are also expected to represent "the public interest generally." We appreciate fully and are determined to meet this responsibility to the public. We are determined to see this institution run as well as possible—in the best interest of our customers, our employees and the American people.

We know that we must choose a Postmaster General who understands the public responsibilities of this Government enterprise. We also know that we must act without regard to partisan politics or political influence. Indeed, one of the cornerstones of postal reform is the statutory prohibition against political recommendations in connection with employment decisions at the U.S. Postal Service, and that includes the hiring of a new Postmaster General.

I want to state unequivocally that the hiring of Mr. Casey was the product of our own best judgment about the best interests of

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the Postal Service. No one outside the Postal Service made any attempt to influence or interfere with the exercise of our independent judgment, whether by suggesting the need for a new Postmaster General or by recommending any particular candidate, nor would we have tolerated such interference.

Bearing in mind our responsibilities under the act, the Governors concluded that the Postal Service needed new management to strengthen it and position it for the future. Mr. Casey's appointment reflects the Governors' determination to meet the long-term managerial and technological challenges now facing the Postal Service.

Mr. Casey has nearly 40 years of experience in running large corporations, with particular strengths in the area of financial management. His experience and proven ability will contribute greatly to meeting the need for more efficient management in order to cut costs, improve service, and assure the future self-sufficiency of this great institution. This means building on many of the cost-cutting measures started under the direction of former Postmaster General Paul Carlin. In this regard, I should note that the experience gained by Mr. Carlin in 16 years of valuable service in the Postal Service will continue to be available to the Board during this new phase.

With Mr. Casey's appointment, we see the opportunity to bring a marketplace perspective to the Postal Service management at a critical stage in the institution's development. We are facing unprecedented pressures from the outside, including increased competition from private sector expedited delivery services and calls from a variety of quarters for the privatization of this institution. We do not intend to be complacent in the face of these new developments nor do we intend to preside over the dismantling of this institution or the impairment of its ability to meet the public service responsibilities that Congress has placed upon it.

Before I conclude, Mr. Chairman, I would also like to say a few words about what this top management change is not about. The appointment of Mr. Casey as Postmaster General does not signal any major shift in the policies currently being pursued by the Postal Service in such areas as maintaining rural services and post offices, preserving Saturday delivery, and stressing affirmative action and safety. We know what our responsibilities are to the public, and we have every intention of meeting those responsibilities as Congress intended when it passed the Postal Reorganization Act.

Mr. Chairman, that concludes my prepared statement. I would be happy to answer any questions you may have.

Members of the committee, I would ask that we observe a bit of protocol, if I may. Mr. Casey and I are both anxious to respond. If when you have a question you would ask a question specifically to either of us, then we will be in a position to respond from our own perspective. If the question is intended to be answered by us both, please let us know that also.

It is my great pleasure to introduce to you, members of the committee, the 67th Postmaster General of the United States, Mr. Albert Casey.

Mr. Casey.

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STATEMENT OF ALBERT V. CASEY, POSTMASTER GENERAL

Mr. CASEY. Thank you, Mr. McKean.

Chairman Leland and Chairman McCloskey, and committee members, it is a pleasure to have this opportunity to speak with all of you today. I feel very honored that the Governors of the Postal Service selected me to serve as Postmaster General beginning on January 6.

Over the course of my career in the private sector, I have always had the highest regard for the most necessary role that the postal system plays in the life and commerce of our country. This vital service touches every one of us every day. Public lines of communication and the economy of the Nation depend heavily on the contributions made by a strong and healthy Postal Service.

I know that the members of this committee share, on behalf of the public, a strong interest in assuring themselves that the Postal Service performs successfully. Your oversight and counsel will be especially helpful to me in the coming months as we work to improve and strengthen this institution. Although I have visited with only a few of you to date, it is my intention to spend time with each committee member.

Few operations today, both in the public and private sector, can expect to be immune from the need for continual reexamination and progressive change. In a fast-paced competitive environment, an organization must find ways to sharpen its own distinctive edge or watch its customers turn elsewhere. While the Postal Service at its best has much that is unique to offer, any slippage can lead many of its customers to consider other alternatives. Thus, in order to serve the entire Nation and thus carry out our congressional mandate, we must make every reasonable effort to make the service available at an affordable cost.

I do not think we can expect any easy prescriptions or quick fixes to resolve the challenges facing the Postal Service. To achieve the level of performance all of us would like to see, we need to develop programs for continuing progress in all areas. Four matters, in particular, warrant brief mention today.

First, a service organization such as the Postal Service must succeed above all in serving customer needs throughout the Nation. Our job is to provide prompt, reliable and efficient services to all communities. We must assure our customers that they will have the dependable, on-time mail delivery they need and expect. We also need an effective marketing orientation so that we shall be able to continue to understand and serve customer needs.

Second, we must operate the postal system on a sound financial footing. The effort which the Government as a whole is undertaking to put its financial affairs in order underscores the Postal Service's own statutory responsibility, and our commitment, to pay our own way. At the same time, we must keep our prices reasonable and thus must find ways to do our job more efficiently and economically. Where technology can improve the productivity of our operations, we must make the most effective use of it.

Third, we must learn how to make better use of our most important resource, our employees. Each employee should have the chance and the incentive to develop his or her full potential and to

contribute as much as possible to the overall success of the Postal Service. In particular, we must work to achieve full and equal employment opportunities for all. I am pleased to report that my greatest comfort to date is the high degree of dedication, intelligence and good spirit that I find among my fellow employees. There has been an outpouring of cooperation and willingness to embrace change.

Fourth, we must provide a safe and healthy work environment for all of our employees. The Postal Service, as one of the Nation's largest and most visible public institutions, must set an example of safe practices and equal opportunity in every community across the country.

When my tenure as Postmaster General is complete, I should be proud to be able to say that progress had been made in each of these areas. No doubt our program will involve sacrifice and dislocation in the near term, but we know of no way of achieving long-term job security and satisfaction other than by earning financial self-sufficiency through superior service, competitiveness, and costs.

I thank you and join with Mr. McKean in saying I will be pleased to try to answer any questions you may have, Mr. Chairman.

Mr. LELAND. Thank you, Mr. Casey.

Let me inform the Chairman of the Board of Governors that the committee, and certainly this chairman, is well versed in the proceedings of this committee. While we appreciate his admonishment, we would like to inform him that we have conducted many hearings on various and sundry issues, and we understand protocol and diplomacy as well. We appreciate your admonishment, but we would like to inform you we are fully versed in how we are to proceed.

Mr. MCKEAN. Mr. Chairman, I did not intend that to be an admonishment. I merely intended to say we have two garrulous Irishmen sitting at the table, and I would not want——

Mr. LELAND. You have got a whole bunch of the other kind of folks up here. [Laughter.]

I would like to acknowledge the presence of the chairman of the full Committee on the Post Office and Civil Service and ask if he has an opening statement.

Mr. Chairman.

Mr. FORD. Thank you, Mr. Chairman.

I would like to thank you and Chairman McCloskey for responding so quickly to my suggestion that we have this hearing. And I want to make clear on the record, at the outset, that my motivation in asking for this hearing has nothing to do with any concern that I am aware of with the way the Postal Service is being operated.

But I did notice, because other Members of Congress brought it up; that the Board left me in the dark and I heard about this the same way everybody else did. And the chairman on the Senate side and myself found ourselves in the interesting position of having Members of the Congress in both bodies call the chairman they thought knew what was going on in the Post Office to find out what the story they saw in the newspaper meant. And we shame-

facedly had to say we did not have the foggiest notion nor did we have any indication that something like that was likely to happen.

So in very early conversation with Mr. McKean I suggested it would be in the best interests of the Postal Service if he and the new Postmaster General would come before this committee as an open public forum and clear the air for the public so that there would not be undue concern that there is something dreadfully wrong with the Postal Service. And, indeed, there is not. I hope we will be able to dispel the concerns that people have, caused not by any concern about whether it is wise or unwise to replace the Postmaster General, but rather the quick way in which it was done. That left people wondering if it was done because there was some dire emergency facing us. They assure me there is not.

I appreciate their cooperation in being here and rearranging the meeting of the Postal Board of Governors that would have been scheduled at this time on the west coast so they could cooperate with this committee and be here.

And I look forward to the rest of the hearing, Mr. Chairman.

Mr. LELAND. Thank you, Mr. Chairman.

Mr. McKean, in announcing Mr. Casey's appointment, you said that you had begun a search for a new Postmaster General 90 days prior to the announcement. Was this action done in your September Board meeting?

Mr. MCKEAN. There was a contingency committee that remained in place from the previous hiring of Mr. Carlin, and it was understood at the time that we would not be caught, we hoped, in the position where we were not constantly in a position to examine that office and to decide if a replacement might be necessary. The contingency committee remained in place from January 1985 and in September 1985 it was felt that a more accelerated pace should be conducted.

Mr. LELAND. When you formed the contingency committee, had you already made the decision that Mr. Carlin had to be replaced?

Mr. MCKEAN. At that particular time we were conducting an ongoing dialog with Mr. Carlin. It was felt that the situation had reached a point where it would be wise for us to consider other candidates for that position. It is not that we had reached a firm and positive decision in September. Obviously, the firm and positive decision would depend on who we had available as a successor. To that extent, the firm and positive decision was made in December 1985.

Mr. LELAND. What Board members, aside from yourself, are on the contingency committee?

Mr. MCKEAN. Governor Voss manages the affairs of that committee literally on a day-to-day basis.

Mr. LELAND. Did the contingency committee obtain any outside help in conducting the search?

Mr. MCKEAN. My understanding is that Mr. Voss went immediately to an outside executive search firm, MSL International.

Mr. LELAND. How much did it cost?

Mr. MCKEAN. My recollection as to the cost for the placing of Mr. Casey, some $30,000.

Mr. LELAND. I had staff members present at that announcement, and I carefully read all the media accounts of the reason for Mr.

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Carlin's removal. Yet it is still very, very unclear to me as to exactly why Mr. Carlin was removed. For my enlightenment and for the record, would you please tell us exactly what Mr. Carlin did or did not do that led to his termination.

Mr. McKEAN. Mr. Chairman, our position is that the U.S. Postal Service should be managed by the best possible people available to us. The fiscal year September 30, 1985, produced a $251 million net operating loss. This was the first year of a rate cycle. We believed that we could have done better. We believed there could have been more direction from the top, and we believed that the ability to respond to the deficit situation is attributable to the strength of the organization below the Postmaster General level, which is not to say that Mr. Carlin did not participate in the solution.

We just felt that more direction could have been given.

Mr. LELAND. So you attribute the primary reason for his departure to the $251 million deficit in the Postal Service?

Mr. McKEAN. In the sense that the operating results of any private corporation are thought to be the bottom line, that was certainly a factor. We felt it was necessary to trim this large organization and eliminate certain areas of management. It is fair to say that the proposal that reached us with regard to Mr. Carlin's reorganization plan was disappointing to us. It did not go far enough, and we felt that it was difficult for that organization itself, within itself, to conduct the necessary management reviews.

Mr. LELAND. With your desire to trim the Postal Service budget, have you given any serious thought as to how you would prioritize those cuts, and where will these cuts be made?

Mr. McKEAN. The announcement of Mr. Casey's appointment as the 67th Postmaster General contained, at least in the press conference, what I hoped would be regarded as significant comments. It is the position of the Board that strong executive leadership at the chief executive officer level will result in disinvolvement by the Board in the management of day-to-day affairs of the Postal Service. With that in mind, the answer with regard to the specific cuts we are leaving to Mr. Casey. Naturally, Mr. Casey is aware of the fact that the Board of Governors directs the broad policy of the U.S. Postal Service, and we would expect he would keep us informed as to those areas.

Mr. LELAND. Mr. McKean, Mr. Casey is going to leave at the end of the summer. Do you look at him as purely a bridge from where you are now to somewhere where you are going with the Postal Service? How do you expect a strong leadership from somebody who is just going to be with us temporarily?

Mr. McKEAN. We expect Mr. Casey will participate with us in the selection of his successor. We believe that the legacy, Mr. Chairman, of a chief executive officer is to have someone available as their successor, and we do not believe that we could count on that occurring with the intrinsic structure of the U.S. Postal Service.

Mr. LELAND. Well, let me ask you then, did Mr. Carlin help to find Mr. Casey? [Laughter.]

Very seriously though, are we going to be looking for a permanent Postmaster General? Is Mr. Casey going to help us to find a permanent Postmaster General for the future, somebody who is

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going to be with us for more than a year or 2 or hopefully more than that?

Mr. McKEAN. May I answer the first part of the question? Mr. Carlin did not help us obtain Mr. Casey, and that perhaps, in my response to an earlier question, was an indication of the fact that that particular chief executive officer had not arranged for his successor.

The second part of your question is will Mr. Casey help us? He certainly will, and he knows very well that is something that we expect from him. We expect that he will participate with the contingency committee in the selection of his successor.

Mr. LELAND. You have a contingency committee already organized to help you in this search?

Mr. McKEAN. Yes. Mr. Chairman.

Mr. LELAND. You have an outside consultant that is going to pursue this matter further?

Mr. McKEAN. We expect they will be providing candidates within a very short period of time.

Mr. LELAND. It cost $30,000 to find Mr. Casey. How much do you anticipate it will cost them to find someone to succeed Mr. Casey?

Mr. McKEAN. Something at or around another $30,000. Perhaps higher. I do not have the specific number at my disposal.

Mr. LELAND. One last question from me for now, Mr. McKean. For the record, can you tell us what you mean by, and I quote, "bringing a marketplace perspective to Postal Service management"?

Mr. McKEAN. If I may, Mr. Chairman, the response to this question will be multifaceted. We believe that there has been a great deal of conversation about the fact that the U.S. Postal Service should move toward privatization. My personal opinion is that Congress in enacting the Postal Reorganization Act mandated that we do just that, that we try to operate our business like a private concern and function as if it were a private concern.

In the sense that Mr. Casey is on board now, we felt that it was necessary to bring someone else in from the outside to, as we called it, adopt a marketplace perspective. What we mean is irrespective of entrenched thought and entrenched procedures, we want the U.S. Postal Service to be trimmed. We believe it should start at the management level to send a signal to all members of the organization that we are serious in attempting to manage this company in the most efficient manner possible.

Mr. LELAND. Mr. McKean, you said something that struck a cord with me. You said you wanted to start at the management level, and you used that in the context of trimming. Does that mean that you have already made the decision to trim management?

Mr. McKEAN. It is fair to say the Board of Governors regards the U.S Postal Service as containing layers and layers of management. It is also possible that Mr. Casey will report back to us and say that the Board's perception of that situation is incorrect, but that is our perception. We have hired Mr. Casey to either confirm or deny that that is the situation.

Mr. LELAND. Thank you, Mr. McKean.

Mr. Chairman.

Mr. FORD. Will you yield?

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Mr. LELAND. Yes.

Mr. FORD. You just used a word that I am sure has already been written down by everybody who is writing here. You said privatization. Now, I do not think you really meant that to sound the way you said it, Mr. McKean. Maybe it was a Freudian slip. This is totally inconsistent with everything you said to me in conversation, particularly when you have the U.S. Chamber of Commerce at this moment soliciting members for their opinion of whether they will support an effort to privatize the Post Office. You have the Heritage Foundation quoted as an authority on postal matters. This is from one of Mr. Cruncher's speeches: "It is long past time we turn the Post Office over to private enterprise."

When you use on this Hill the word "privatization," that becomes a word of art. I wonder if you would like to have the committee infer that or if you would like to indicate you are using this in a more general way and you do not mean the Board is embarking upon a course leading toward privatization, as we know the use of that term, of the U.S. Postal Service.

Mr. MCKEAN. Mr. Chairman, what I intended to convey is the Postal Reorganization Act suggests we should run this like a private company. I do not believe that that means, in a Freudian fashion, we must necessarily go to the outside and contract out services in order to accomplish that. What we should do is try to accomplish the necessary functions of the Postal Service within the structure that we have. What I meant by that is that if, indeed, the Postal Reorganization Act means run it like a private company then we should try to do it with our own complement of people in the most cost efficient manner. The contracting out is one of the sources of the cost efficiency, of course, but the first thing we should attempt is to run the company based upon the people we have with us.

Mr. FORD. Then the use of the word "privatization" was not fitting on your part. It was just not the best choice of words. Is it fair to characterize what you just said as saying you are not embarked on a course that leads toward the goal of privatizing the Post Office as that term has been used for years around here by those who advocate, indeed, the privatizing of its operation?

Mr. MCKEAN. No, it is correct to say that the general use of the word "privatization" is not my intention. Therefore, it was not Freudian. As a matter of fact, since I had this job and the time constraints it has placed upon me, not only was the thought not Freudian but I certainly had not thought of celibacy. [Laughter.]

Mr. FORD. Thank you, Mr. McKean.

Thank you, Mr. Chairman.

Mr. LELAND. Thank you.

Mr. McCloskey.

Mr. MCCLOSKEY. I have a few questions. In all good will and for the record, it would seem to me, from all the information I received on this committee, there is a lot more responsibility for our present or recent postal deficit problem among the Board of Governors and Mr. Bolger than there was with Mr. Carlin. That being said, I do not dispute your responsibility to hire and fire a Postmaster General and get the best person you can.

Going into another area, as both you and Mr. Casey know, there have been very strong assertions in some quarters of the press, particularly in Texas, that somehow Mr. Carlin's firing had something to do with a move by REI. I must say that impression, founded or unfounded, can only be strengthened by a statement in the Dallas Times-Herald, written by Irving Frank, that quotes Bill Moore, chief executive officer of REI [Recognition Equipment, Inc.] as saying that the Postal Service Board of Governors more or less endorsed REI equipment, but that Postmaster General, Paul Carlin was opposed to it. "What the marketplace is anticipating now is that the Board of Governors has prevailed by firing Carlin and putting in a new man, and the logic of the REI case will now prevail." That is under a headline, "Casey Postal Appointment Spurs Interest in REI Stock."

There have been other press articles that say the prospects of REI are doing great.

I would like to first ask Mr. McKean, what is the truth of these allegations and the relationships with REI as to Mr. Carlin's firing? And, second, with the issue going on, given damaging stories like this, how do you plan to renew and revitalize interest in the general business community about competition for contracts with the Post Office?

Mr. McKEAN. It is entirely possible by placing the question in this forum you have elevated the allegation to a level that it does not deserve because from the Board of Governors' position we have a competitive acquisition program for some multiline OCR's in what is intended to be a process whereby there would be true and absolute competition, and we encouraged Mr. Carlin to monitor that acquisition program. The Board is convinced that management will make its recommendation concerning which of the manufacturers should be involved in that particular presentation to us and we will accept management's recommendations, and we will analyze the competitive fly-off, whatever it is that is referred to.

Mr. McCLOSKEY. I do not appreciate your intimation that it is unwise to bring up an allegation of this significance and which has been dispersed in the national press, at a hearing like this. This is the very purpose and function of these two subcommittees. It is very important. And, furthermore, it specifically quotes, evidently, someone you are doing business with, Bill Moore, CEO of REI, as saying Mr. Carlin was fired because he would not go along with the REI contract. Now, this is very serious, and I would like a specific answer.

Mr. McKEAN. Well, that is what I meant by the fact that it is unfortunate, because there is no truth to the allegation whatsoever. And, unfortunately, we do not have any control over what quotes are made by individual competitors. I do not think that type of quote helps even the manufacturer to whom it is attributed.

I assure you, Congressman, that our intention is to see to it that the process of acquisition of our multilines is done in a manner that will be above reproach. We have no commitment to either of the two manufacturers and, in fact, it is not a commitment that the Board should make. It is a commitment management people should make.

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Mr. McCLOSKEY. For the record, this article further said, on the day of the announcement the volume of trading in REI's stock was six times the average over the previous 10 weeks, and the stock closed up three-fourths. The next day, volume was three times the average, and the stock closed up one-half. This was on a day when the Dow Jones Industrial Average fell 39.1 points. Naturally, a story like that would further tend to discourage bidders who were competing against REI.

Another Dallas paper, the Dallas Morning News, ran a story which began with the following statement: "A bitter feud between two Dallas-area high technology companies helped provoke Monday's ouster of * * * Carlin and the appointment of * * * Casey." The two firms named in the article were Recognition Equipment, Inc. and ElectroCom Automation, Inc.

Before I turn for comments and observations on this from Mr. Casey, another part of the story mentions that Bill Moore met Casey through Robert Crandall, Casey's successor as Chairman of American Airlines and who is a member on the board of REI.

Mr. Casey, I would appreciate your commenting on that. Is it a likely approach to future relations with REI?

Mr. CASEY. It has no bearing whatsoever. Mr. Crandall has been there for some time. I do not know exactly how long, but it would have no bearing in our selection of the equipment.

Mr. McCLOSKEY. Could I ask, has he spoken to you personally about the REI contract?

Mr. CASEY. No, he has not nor has Bill Moore.

Mr. McCLOSKEY. I would like to ask one other question of Mr. Casey at this point.

Sir, have you had the benefit of interviewing or having intensive discussions with Mr. Carlin yet?

Mr. CASEY. No; I have not met Mr. Carlin. He dropped me a note and I replied, and we are going to get together.

Mr. McCLOSKEY. I would respectfully suggest, regardless of the merits of the dismissal situation, that he would be a key person to talk to and, obviously, would be invested with all sorts of knowledge about the Post Office.

Mr. CASEY. I welcome the suggestion, and I shall do it.

Mr. McCLOSKEY. Thank you, Mr. Chairman.

Mr. LELAND. Mr. Horton.

Mr. HORTON. Thank you, Mr. Chairman.

Mr. McKean, Mr. Casey, I want to ask some questions about the process, and I do not want comments I make or the questions I ask to have any relationship to the fact that Mr. Casey has been selected. From all I know about him, he is a very outstanding individual and certainly a person of very fine background and one we will be proud to have as Postmaster General. But in asking the questions I want to ask, I just want to find out a little bit more about the Board.

I will say also that, as you probably know from personal conversations you and I have had and then also as a result of the oversight hearings of the Board of Governors that we held last year, that I feel the Board of Governors is a very responsible organization and it is not just like a board of directors in a private corporation. In my judgment it is an oversight body, a governing board

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that is responsible to the Congress and especially to this committee and the appropriate committee on the Senate side, and I feel that there is a need and has been a need for more oversight by the Board, and I have suggested that the Board be an active board rather than a passive board. And I commended the Board in the fact that they are making decisions. Whether those decisions are the wisest or the best decisions is something that only time can tell. But I do commend the Board for its active participation in the affairs of the Postal Service, and I think that the Congress has to look at the Board for its judgment and for its comments and for its oversight and hold the Board responsible for that function. And that is an important function as far as I am concerned, and there needs to be more oversight.

As a matter of fact, the gentleman from Texas, the chairman of the Subcommittee on Postal Operations, and myself introduced a bill which created an inspector general. We held hearings on it, as you well know.

But coming to the selection process, it is my understanding, as has already been said, that Mr. Casey has been selected on a temporary basis. What is the term with regard to Mr. Casey and why was an interim selection made rather than a permanent Postmaster General?

Mr. McKEAN. The decision to engage Mr. Casey as the Postmaster General was made in December. His availability suggested to us that we had an opportunity to change at the time that we felt the change needed to be made and that we would be able to obtain his assistance in selecting his successor.

With regard to Mr. Casey's term, I am sure you will have an opportunity to direct the question to him about this also, but the candid response to your question is simply this. When Mr. Casey was hired, this conversation took place: "We are engaging you as the Postmaster General of the United States. We are aware of the fact that you may have some personal plans during the year 1986, but we expect you to serve at the pleasure of the Board of Governors. That means if we need you, we will ask you to stay on." Mr. Casey can give you his response to that question, but I assure you that it was put in something like that fashion.

Mr. HORTON. What does that mean by way of term? Are we talking about 1 month, 6 months, 1 year? What is the Board's understanding with regard to his term? Is it on a month-to-month basis?

Mr. McKEAN. At that time, Congressman, Mr. Casey made us aware of his personal plans which indicated July or September, which would be 6 or 9 months; and, as I said, he can answer more fully with regard to that.

Mr. HORTON. His term is at your pleasure?

Mr. McKEAN. That is right.

Mr. HORTON. And the Board of Governors' understanding is something from 6 to 9 months?

Mr. McKEAN. Yes.

Mr. HORTON. And the next question is, why did you select an interim Postmaster General rather than if you felt the need to replace Mr. Carlin why not have the Postmaster General vacant for a period until you can get a permanent Postmaster General? What

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was the decision by the Board with regard to selecting someone on an interim basis vis-a-vis a permanent basis?

Mr. McKEAN. My understanding of the sense of the Board, Congressman, was that it was not appropriate for us to leave the top management slot vacant during any period of time. That is No. 1.

No. 2, the availability of Mr. Casey at the time with his prowess within industry and his recognized skills in corporate management suggested that this would be the appropriate step to take.

Mr. HORTON. In other words, what you are saying is, the selection of Mr. Casey on an interim basis was because of his commitment rather than a decision by the Board that you would select somebody on a temporary basis?

Mr. McKEAN. Our overwhelming wish would have been to place in position a Postmaster General that we felt would be with us for the long term; but because we felt that that needed further study and because of the availability of Mr. Casey and also because we felt he could assist us in obtaining his permanent successor, these were the factors that influenced us to take the action that we did.

Mr. HORTON. If you wanted him to select or help you select, why didn't you just hire him on a retainer basis to help you select the next candidate rather than to hire him as the Postmaster General?

Mr. McKEAN. Congressman Horton, we believed a change needed to take effect. We believed that the change needed to take effect immediately. We believed that the office should not be allowed to be vacant, and we further believed that the position of the chief executive officer operating from the top slot in the organization carries with it further authority and recommendation power that would be more than just an outside consultant hired to assist us.

Mr. HORTON. Well, in light of that, and you were selecting an interim Postmaster General, why couldn't or did you give any consideration to the selection of someone within the organization to act as a temporary Postmaster General?

Mr. McKEAN. The matter was considered; but please understand, Congressman, we went to great lengths to examine all internal candidates 12 months previous, and we knew pretty much what was available to us from the inside. We thought it necessary to go to the outside, and we thought it necessary to send that signal right away.

Mr. HORTON. What does the Board expect that you will have accomplished with a 6-to-9-month interim Postmaster General?

Mr. McKEAN. We believe that that is adequate time to receive, synthesize, and implement recommendations that may come from people who are looking at the management structure of the organization. We also believe that Mr. Casey is known as a person who has those skills. He has the ability to judge people and the ability to judge their management skills. We felt he would be a valuable resource for the U. S. Postal Service, and it was the result of our considered judgment.

Mr. HORTON. You indicated also that Mr. Carlin had a reorganization plan that was not acceptable. Had that been submitted formally to the Board?

Mr. McKEAN. Yes.

Mr. HORTON. Can we have a copy of that? I do not think we need it right now, but can that be made available to the committee?

Mr. McKEAN. Whatever documents were used as a part of the briefing process, we will make available to you.

Mr. HORTON. As I understand it, he had submitted at the request of the Board a reorganization plan or a management plan. Was that in writing? Was that presented formally to the Board?

Mr. McKEAN. My precise response to you, Congressman, is we were briefed on the status of the reorganization plan and what was intended to be the current condition of that plan. There were written materials presented as a part of the briefing process. Those can be made available to you, yes.

Mr. HORTON. You said it was unsatisfactory to the Board. What was unsatisfactory about the so-called Carlin plan?

Mr. McKEAN. Well, my recollection of the plan is that there was consideration of some 250 people that would be moved. We would hope the movement would have taken place so there would be a reduction in the total number of employees. Our understanding of that plan was that it would be moving some people out into the regions and that the net effect of the change would not be significant.

Mr. HORTON. I have some other questions, but I do want to ask a couple more right now and then I will come back to the others.

You have indicated that it was the intention when you hired the new Postmaster General that he would be involved in the process of the selection of the next Postmaster General. Now, that is a prerogative, as I understand it, within the jurisdiction of the Board of Governors, not within the jurisdiction of the Postmaster General. I have no problem with input, but I would like to ask what definition do you have with regard to how his participation will be utilized by the Board? How will he participate in that decision?

Mr. McKEAN. I would like to mention to the Congressman that in the selection process that took place previously, Mr. William Bolger, who was the sitting Postmaster General at the time, was a part of the committee. I personally appointed Mr. Bolger to that committee. We made it clear—and counsel is quite correct in pointing out to us that the statutory responsibility for the hiring of the Postmaster General rests with the Governors. To be specific, we believed that someone who sits in that office and understands the day-to-day flow of work is in a very good position to advise the contingency committee as to what the job requirements are. So we expected him to be advisory and not provide Mr. Casey nor Mr. Bolger with the final decisionmaking authority. That is the Governors' job.

Mr. HORTON. Has he been appointed to some committee?

Mr. McKEAN. In this case, we do not have Mr. Casey appointed to any committees.

Mr. HORTON. Thank you.

This is a little bit on another subject, but there are a number of people in the room that are concerned about this, and I notice that the Postal Service budget for 1987 is going to repropose the termination of payments by the general fund to reimburse the Postal Service for losses in revenue associated with carrying certain categories of mail at free or reduced rates. However, legislation will be proposed to enable the Postal Service itself to continue the subsidy for most existing subsidized mailers.

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That was part of the budget proposal last year. We are in the 1986 budget now. Has the Board of Governors taken any position with regard to the 1986—now I am not talking about 1987—but with regard to 1986, have you taken any position with regard to the foregoing subsidy? And I particularly would like to ask with regard to those who are blind, is there any intention by the Board of Governors to reduce in any way that service provided to the blind?

Mr. McKEAN. First of all, as a general statement, the Board of Governors is quite aware of the work that this committee has done in order to provide the U.S. Postal Service with the necessary appropriations so that it will continue to be able to treat the mail of certain mailers, deserving mailers from the view of the Board of Governors, at reduced rates. These are religious, scientific organizations, members of handicapped organizations.

We must balance that with the need to fulfill the statutory requirement, and that is that each class of mail must bear its costs. But specifically with regard to the mail for the blind, in June 1985, when we discussed the fact that we were unsure as to what appropriation we would be receiving, a statement was issued under my signature which said the following.

Even though no one knows what the final figure would be—this is the appropriation—several things now appear to be clear, and the first thing we did state was this: Mail for the blind will continue to be accepted free of charge. Not only is this the obvious intent of Congress, but the $37 million needed for this purpose appears to be assured. So we have no intention of changing that.

Mr. HORTON. Thank you very much.

Thank you, Mr. Chairman.

Mr. LELAND. Mr. Chairman.

Mr. FORD. I would like to pursue this a little further—in the direction Frank started. We got a budget this morning. Although this budget has been more closely guarded than any since I have been here, we knew what was going to be in it and that information was accurate. We compute we will be asked in fiscal year 1987 to assume almost $2 billion in costs that you are not now assuming in both the items that Mr. Horton mentioned; and two other items in the budget that transfer to you the responsibility for health benefits for annuitants, which are in excess of $300 million a year, and increased Postal Service payment for the civil service retirement fund. This would raise the payment from 7 percent to 9 percent for the employee and the employing agency. That costs you $777 million on the basis of your present work force. That gives you about $1.9 billion.

The budget suggests, as Mr. Horton has alluded to, that they will expect that Congress will authorize cost subsidizing on classes of mail so that you can absorb the $800 million and, therefore, keep carrying at a preferred rate the nonprofit and charitable organizations, educational and other organizations who enjoy that privilege.

Absent the change in the law, I do not believe you can do that because we specifically prohibit cross-subsidization. In short, what that means is you would have to devise a system to pass that $800 million on to the other mailing users by a commensurate raise in their rates, having nothing to do with the cost of handling their

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mail but having to do with picking up this additional social burden that the past Congress decided was the taxpayers' burden.

Do you have any thoughts on how you are going to find the $2 billion when you are projecting zeroing out right now?

Mr. McKEAN. I will be pleased to say that the specific economies are the responsibility of our Postmaster General to tell us. [Laughter.]

With regard to the spreading, of course, of the costs over the other classes of mail, we expect that to be a job for the Postal Rate Commission and the appropriate function they would play.

We are determined, if at all possible, to avoid increases in rates. You know that this particular Board of Governors is struggling with that notion constantly. We regard our primary function to be the preservation of the fiscal integrity of the U.S. Postal Service, but we have to balance that against the fact if we raise rates we may cut volume and we may find ourselves in a position where our rates of postage exceed the rate of inflation and add to the fuel that the organization is not running efficiently.

At this precise time I do not have any specifics with regard to the economies that would go into effect, but that is the best answer I can give you right now.

Mr. FORD. Let me be completely fair in asking the question. I observed in the audience more than one lawyer who represents substantial mailing interests who will be very interested in the cost subsidy scheme that comes up. I hasten also to tell you that absent a change in the statute, no cross-subsidization can be provided for by the Rate Commission. The Rate Commission does not have the authority to cross-subsidize, to take, in effect, profits from one class of mail and use them to carry another class of mail. We would have to go back and unravel a very central part of the Postal Reorganization Act to give them that authority. That leaves the question as to whether or not the Board has given any thought as to whether they want us to do that. If we do not give them that authority, you will simply have to charge all of these groups the full rate. The Rate Commission will have to adjust the rates accordingly. If we do give it to you, you will have to in your rate filing ask the Rate Commission to assess a cost to all the other ratepayers to pay for these preferred classes of mail, newspapers included.

Now, has the Board discussed this? Do you have any idea about how you want us to respond? This committee, as a matter of fact, must respond in the next 2 weeks with the budget initiative, either saying, yes, we will claim $800 million saved or, no, we won't. What do you think we ought to do in the next 2 weeks?

Mr. McKEAN. Mr. Casey has asked he be allowed, if the Congressman is amenable, to respond first to that question.

Mr. CASEY. Congressman Ford, this is a very, very serious subject. We can in no way absorb $2 billion. I have been in active discussion with the Office of Management and Budget to determine whether one of two courses might be possible. One way is to phase in the payments to which you referred because we cannot get a rate increase even if we wanted to short of 18 months to 2 years. The other thing is, I have not given up the hope of getting out of the unified budget, going back to normal business accounting, and not using the cash basis that the unified budget does. So we are

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struggling down both those lines right now. I prefer to exhaust those options before we come back and ask you to change the Postal Reorganization Act.

Mr. FORD. Assume they do phase you in with respect to the health benefits and the increased costs for the retirement fund. That still leaves you with $800 million unaccounted for. Should we deal with that by passing it on to you with an admonition that you continue the service that has been given in the past undiminished. Or should we pass it to you with no such admonition, thereby leaving you, as required by the law, to charge all of these users the full costs?

Mr. CASEY. I am really not prepared to answer that yet. We are inquiring into that.

[The information was subsequently received for the record.]

FISCAL YEAR 1987 REVENUE FORGONE APPROPRIATIONS

The $800 million cited in the question relates to the FY 1987 revenue forgone appropriation which is eliminated in the President's budget. Similar proposals have been made in prior years and the Postal Service has always maintained a neutral position as to whether current subsidies for particular postage rates should be eliminated or continued. The issues involved are necessarily social and political; therefore, the Postal Service believes its function to be the administration of legislation governing this area as enacted by the Congress.

We do have concerns about separating the responsibility for determining what is subsidized from the responsibility to pay for the subsidies, by funding these subsidies from general postal revenues. The Postal Service is required to serve the entire Nation at fair and reasonable rates. Mailers normally must pay their fair share of postage for the services they receive. Current law enables the Congress to assume responsibility for a share of the postage which favored categories of mail would otherwise pay by providing appropriations to cover it. The mailers who are already paying the entirety of their own share should not be expected to shoulder an additional responsibility for part of the postage properly belonging to other mailers if the Congress decides it can no longer afford to fund the subsidies. Consequently, the other (i.e., preferred) mailers' postage rates should be adjusted upward to recover any lost appropriations. Otherwise, mailers who already pay their fair share of postage, without the aid of appropriation, would be unduly burdened.

Mr. FORD. Do you suppose you could advise the committee in the next week or so which direction you would like to go, because I will be asking this committee to support a response to the Budget Committee on the first target date. Would somebody tell me that date? The 25th. By that time, in writing, we have to narrow all the items in the jurisdiction that this committee has and report back with our recommendation to the Budget Committee on what have we done in this current budget process with that item.

In the past we have refused to cooperate with the Office of Management and Budget, which has made the same recommendation for a number of years. And we have succeeded, with the help of the U.S. Senate, in persuading Congress to understand that it was and is still good, sound public policy to do things the way we were doing them. And they chose to find savings in the budget in other places and spared the Post Office.

The only hope they have for being spared is if the Congress is able to agree on a budget that meets the Gramm-Rudman target while we still have room to maneuver. Once the target trigger is pulled, we no longer can make such choices. It hits everybody without regard to the value or wisdom of any particular program. It will hit this program in exactly the same way it hits the water projects or building highways or anything else.

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So it is a little difficult for us this time because we realize that if we simply stonewall, we are going to get a result that may be bad or worse than what we get by trying to make a fight. We can, in fact, make the same kind of fight in expectation of success that we had in the past, and we need some guidance from you on exactly what you will be doing in the Post Office if we go in the direction CMB is suggesting.

My hunch is, looking at the numbers that are being thrown around and recognizing the realities of getting the rate case through in time to do any good, that you are going to be in bankruptcy by the middle of the year. Literally I mean in the condition of a bankrupt company. And we do not want that to happen.

Along that line, Mr. McKean, earlier in the fiscal year 1985 projections you were going to end the year with upward of $500 million in deficit. Actually you did a good job toward the end of fiscal year 1985 and you came out with only a $250 million deficit. In other words, you cut that projection at least in half over a period of 6 months. And, of course, that was under Mr. Carlin.

Now, for the current fiscal year you are already $500 million in surplus and the Rate Commission is estimating that you could be as much as $800 million in surplus if you keep doing what you are doing now—if you do not change anything.

Now, with that in mind, can you reassure us that the changes you have in mind are not going to affect, interfere with the recovery that you, the Board, and the Postmaster, have managed so well in the last 6 to 9 months?

Mr. McKEAN. Specifically, we are encouraged by the fact that management was able to respond to a very difficult situation and reduce the projected deficit for the fiscal year 1985 down from $500 million to $251 million. Our previous testimony was to the effect that while we encourage that, we think there could have been a more prompt response to the situation earlier in the year. There were extraneous conditions that caused some part of the cost overruns but, indeed, that has continued in the first quarter of fiscal year, September 1986. To the extent that the Board involves itself in this matter at all, we are pleased with the results. We are thankful that it has occurred. We believe it indicates there is a basic structure of management throughout the organization at the regions and at the MSC levels and at the district levels which are very responsive to difficult situations.

There are no plans we would have to do anything that would abort that and, in fact, we believe Mr. Casey's presence and his successor's presence on board would allow us to be able to make the statement that the various regions have coordinated activity and that this projected and improving trend will continue.

Mr. FORD. Thank you.

One final observation to Mr. Casey, and I want to say in public to Mr. Casey the article that Chairman McCloskey referred to did come to my attention. But my first reaction was to wait and see what we could find out. And since that time we have done a little inquiring. For example, we know that last year we had four companies competing for this hardware for defense—that's a Freudian slip. The American public and its Congress have been boiling for some time over what they perceive to be sloppy contracting prac-

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tices by the Defense Department, and it has changed the attitude of the Members of Congress who have started looking critically at the Defense Department. Members who never saw a weapon they did not like before now want to know whether it will work before we buy it. And that is a revolution. Now, they have always been critical of the Post Office and there are still a lot of members that do not believe in what you are doing over there and even more who have no idea whether you are doing anything.

But we are talking about the Post Office spending about $1 billion here in one shot on a piece of equipment. I know that the two companies that are now left in competition have been all over this Hill, like ants at a picnic, lining up friends. I also know that the company mentioned in this article managed to lobby all the way through our Rules Committee an amendment—it was finally withdrawn on the Floor—which, if it had been offered and adopted, would have eliminated all of the other competitors. And it shows me there is some desperation out there to get this contract.

Because of the quotes by people in that and other companies here, I am telling you and saying publicly that I intend, immediately after this meeting, to dispatch a letter, with whoever else wants to sign it with me, to the Comptroller General asking that he expedite a complete investigation of the statements that are made, and quotes, did these people, indeed, say this to the newspaper and if they did, what do they mean and then report back to us on what, in fact, even by perception, has happened to the competitiveness that was once in this billion dollar deal. We are now down from four competing companies to two.

Interestingly enough, it is going to be very difficult for you because one of them is on one side of the college and one is on the other side of the college. One is in Dallas and the other one is in Fort Worth. So you cannot be a good Texan and be for one of them down there, and I hope that GAO will take you off the hook in this process.

Mr. LELAND. Mr. Clay.

Mr. CLAY. Thank you, Mr. Chairman.

I have a question of both Mr. McKean and Mr. Casey. Because of the Gramm-Rudman legislation this year, COLA's for retired Federal and postal employees have been suspended but not for Social Security recipients. Our colleague on this committee, Representative Mary Oakar, has introduced H.R. 4060 which would guarantee the COLA's of retired Federal and postal employees for fiscal 1987. I would like to know your respective positions with regard to that piece of legislation.

Mr. CASEY. I could not hear you. This gentleman was clicking a camera near me. He was taking a picture of me.

Mr. CLAY. I would like to know your respective positions in terms of H.R. 4060, a bill that would guarantee the COLA's for retired Federal and postal employees for 1987.

Mr. MCKEAN. That would be a decision that the chief executive officer would make after studying it, but my understanding of the relationship of the employees of the Postal Service to the Postal Service is their rights are established by contract negotiations, and I am not familiar with the legislation. I am not familiar with the fact that that change would take place.

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Mr. CLAY. The legislation simply guarantees the COLA's for retired Federal and postal employees next year. I think it is a question that needs to be answered because in Mr. Casey's statement he talked about the good spirit and the dedication and the intelligence of the work force that he has found since he has been there. I want to know how you intend to keep that high level of dedication and good spirit if you cannot support a program that is going to affect them when they retire.

Mr. CASEY. I think what we would have to do is look closely at the legislation in terms of our FY 1987 budget, which, we have not done and decide whether we could afford it before we take a position. I just do not see how we can take a position today.

Mr. CLAY. Thank you.

I heard Mr. McKean's statement for the causes of dismissal of Mr. Carlin. I do not believe that the mere fact that the Postal Service showed a $250 million loss was the primary factor in his dismissal. That is less than 1 percent of your annual budget. Many major corporations lose that much in one quarter and they do not replace their chief executive officer.

So my question to Mr. Casey is: When you were employed by the Board of Governors, did they mandate you to produce a reorganization plan on the contingency that Mr. Carlin's reorganization plan was insufficient? Did they mandate you to produce it and, if so, have you produced it?

Mr. CASEY. Yes, sir.

Mr. CLAY. How does that differ from Mr. Carlin's?

Mr. CASEY. Mine has not been quantified. I have outlined the principles and timing, and 10 areas have been identified that we are going to review. The team has been assembled and we have already started.

Mr. CLAY. Do you have a goal of how many people you will dismiss?

Mr. CASEY. No, I do not think that would be a prudent thing to do. I have no knowledge whether anyone should be dismissed.

Mr. CLAY. Have you dismissed anyone since you have been there?

Mr. CASEY. Yes.

Mr. CLAY. How many?

Mr. CASEY. About seven people, primarily four of them in my office and three other department heads.

Mr. CLAY. One last question. Mr. Carlin issued in, I think, April of last year a memo on affirmative action. Do you agree with that memo and do you intend to make sure that it says in place or do you have some other ideas?

Mr. CASEY. I would expect it to stay in place. I tried to cover that in my opening statement. I subscribe very heartedly that the Postal Service must set the example in that area.

Mr. CLAY. Thank you, Mr. Chairman.

Mr. LELAND. Mr. Dymally.

Mr. DYMALLY. As followup to that question, Mr. Casey, three large corporations which you headed did not receive any medals in the area of affirmative action on a qualitative basis. Am I to conclude that you will continue with the neglect of affirmative action as was the case of the three large corporations you headed prior to coming to the Post Office?

Mr. CASEY. Mr. Congressman, I would have to go back to some of them. To speak for American Airlines, we have a perfectly good affirmative action program.

Mr. DYMALLY. Quantitatively but not qualitatively. Quantitatively you may have had large numbers of black stewardesses, but in terms of administration, American Airlines was not counted for any medals in terms of administration.

Mr. CASEY. Well, I am sure you are right.

Mr. DYMALLY. I was pleased when I found on airlines to which I have to pay over $1,000 to go back home, attractive and intelligent black, Hispanic—not very many Hispanic, by the way—attendants. I do not see any pilots and I have not been to your headquarters in Dallas, but I am sure if I went there I would not see very many black vice presidents. Is that not a correct statement?

Mr. CASEY. You would not see very many vice presidents. You would see a fair number of pilots.

Mr. DYMALLY. They do not fly to California.

Mr. CASEY. They have to accumulate sufficient seniority. To fly the more desirable routes.

Mr. DYMALLY. I am going to make a check as of Friday when I go home, to peek in the cabin.

Mr. CASEY. You would probably see them in Wyoming.

Mr. DYMALLY. I knew you were going to single out American Airlines because American Airlines indulged in a good PR operation, given the competition you had in the airlines industry. But considering the fact you had sort of an exclusive and sort of a minimonopoly, I do not see any evidence of affirmative action, certainly not in the Los Angeles Times, certainly not in the Southern Pacific, with which I am very familiar as a Californian.

Mr. CASEY. You say the airline had a monoply?

Mr. DYMALLY. I say you had good PR and you did not have a monoply. You had lots of competition, but given the monoply you had at the Los Angeles Times in California there was no evidence of any affirmative action even on the lower levels.

Mr. CASEY. They developed that monoply by developing a superior product at a reasonable cost.

Mr. DYMALLY. Fine, I give you great credit for that, but you did not have an affirmative action policy.

Mr. CASEY. I am sure we did at the newspaper. There was a plan instituted in April 1973.

Mr. DYMALLY. I do not think you could name 12 black reporters on the Los Angeles Times' staff.

Mr. CASEY. I am sure I could not.

Mr. DYMALLY. They get up to a certain level and they leave. Austin just left, I know, because they write nasty articles about me. [Laughter.]

You had none in Southern Pacific. You had none in the Los Angeles Times. You had to have one in the American Airlines because of the nature of the industry and the competition you had. You were required to put Braniff out of business. So you had to have that which was salable to the American public. But at the Times, nobody walks through the hallway in the Los Angeles Times on a daily basis as you do in American Airlines where everybody is visible. There was no affirmative action policy there.

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So my question is, given the short space of time you have, is this going to be part of your program or is this case of benign neglect going to be present?

Mr. CASEY. I shall work diligently at it, I assure you. It is hard to do when you are shrinking a work force. I do not know that we are shrinking a work force, but you know the blocks that come up during layoffs and reductions in force. If that comes about, it is going to be very hard to perform.

Mr. DYMALLY. Not really. It is a question of will, commitment.

Mr. CASEY. I entirely agree.

Mr. DYMALLY. One final question What would your position be on women pilots for American Airlines?

Mr. CASEY. American has a modest number of qualified women, probably 40 cockpit employees.

Mr. DYMALLY. I suspect you keep them in the Southwest because I do not see them flying to California.

Mr. CASEY. They are not allowed to go transcontinental. They go north to south.

Mr. DYMALLY. Why not?

Mr. CASEY. They have not been with American long enough to bid for those routes. Actually Bonnie Tiburzi has, and two or three others. I think they are actually in the overseas service now.

Mr. DYMALLY. Finally, to Mr. McKean, the chairman articulated my concern and present are members of the California delegation who are concerned about the possibility of this loss given the fact of the budget, and we had to almost force it on the administration. The net effect would be an increase in the rates, especially for the blind people, if revenue is not put back in the budget. Are you going to make some special provisions for the blind as opposed to the other nonprofit organizations or make some recommendations, I mean, to the Postal Rate Commission?

Mr. MCKEAN. I would bring that matter to my Board specifically, and the Board was aware of the statement that was issued in June of 1985 to which I alluded, and that was that mail for the blind would be continued to be accepted free of charge. At the time when this statement was issued, it was in the amount of $37 million. That is million dollars. That is not a large sum in relation to our total revenues, but we would have to consider it, yes.

Mr. FORD. Mr. Horton's question and your response did not do much for the concern expressed recently by the National Federation of the Blind. They pointed out that they have a developing program for scholarships for blind students to be funded by solicitation through nonprofit third-class mailings of contributions across the country. And that the rate increase that is projected by Gramm-Rudman will, if we do not find a way to sidestep it, reduce in the next two cycles the number of scholarships available by approximately one-half. So their concern does not stop with the special treatment they have had for braille material which dates back to 1911 but, more importantly, to the way in which they raise money for their activities just as the religious and other groups do through the third-class nonprofits.

In line with this question, are you really entertaining the thought that the Postal Board of Governors would try to pick between the one kind of nonprofit organization's funding-raising ac-

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tivities and another? Will you actually make a decision on whether Jerry Falwell can continue to use it or Oral Roberts or the Crippled Children's Society? I do not think you mean the Board to do that.

Mr. McKEAN. No. As a matter of fact, you directly pointed out the statutory requirement and that is each class of mail has to support its own costs. So the only thing that my remarks intended to convey, and I hope it did, is our appreciation for this committee's work in attempting to continue to provide an appropriation so that worthwhile activity could continue.

Mr. DYMALLY. Thank you very much, Mr. Chairman.

Mr. LELAND. Mrs. Schroeder.

Mrs. SCHROEDER. I wanted to pick up with just one thing that struck a bell in my head when Congressman Dymally was asking questions about affirmative action because during the Super Bowl there was a very sick joke going around this town, and yet I think it had a lot of truth in it and the Post Office was part of the joke. The question was what do you call one white man surrounded by 10 blacks? And the answer was "Coach." And it was then, what do you call one white man surrounded by a hundred blacks, and the answer was "Warden." And one white man surrounded by a thousand blacks was the "Postmaster."

I think the joke really reflects the lack of movement, that everybody was absolutely frozen at a certain level in many different occupations, but certainly at the Post Office. I think what Mr. Dymally is saying is really serious, and we are really trying to look very much at the qualitative part of it.

I also want to underline what people were saying too about how we deal with the revenue foregone postage and rate issue. When the President gave that soaring rhetoric last night about how the American people brought us back and how much more the private sector has contributed as we are cutting programs, I think it is very clear that if we start hitting charitable institutions and people who are trying to do these self-help programs we are going to wipe them out if we force them to the higher postage levels. I certainly hope that if you are planning to do that you let us know and you let the President know right away. He should have struck that paragraph from his speech if you were going to do it because I think it is very clear that groups could not continue that kind of fundraising without it.

Let me then hit you on something that I must say I am very disturbed about, and it is very parochial but, doggone it, it is important. In Denver, CO, the Post Office marched in and said they were moving one of the postal stations, and the entire neighborhood was up in arms. So much so that the Governor, the mayor, and everyone else got involved in it. The Governor of the State does not usually get involved in this type of thing. We could not figure out why the Postal Service selected this spot. They said it was because they did not like the street that the postal station was on. They thought it was full of disreputable people. It happens to be also where the Capitol is, and those people thought it was coming back. But maybe that is why the Governor got involved.

Nevertheless, the elderly people who were using the postal station got involved. Everybody who called was assured by the Postal

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Service that we can work this out and we will have a meeting with everybody and the postal people will come out and talk to us. So everybody said, fine. People like the National Geographic even did a full color spread on the street and how it had changed and we thought maybe when the Postal Service saw that, it would be different. And the man who had made that decision admitted he had not been to Denver in 10 years, so things had changed.

Out they came, a group from California. And I tell you it was like you had a bomb explosion. They were very angry they had to meet with their constituents. They did not like to do it. What do these people know? Of course, they thought maybe they knew more since they lived in Denver than these people who came from California. The whole thing went absolutely crazy. We now hear they are going to make some kind of decision on this Friday, and I have got a file here, as I say, from my Governor, everybody, furious about the treatment, the arrogance. What in the world is going on and why are they spending all this money? I do not really understand. Did it just happen because we are a mile high? Maybe the air is rare and they were not up to it.

Do you hear that type of thing from other places? PR-wise it has been a disaster.

Mr. CASEY. I am sorry to report I do not have the current facts, but I will. I will respond to you.

Mrs. SCHROEDER. I would like to give you this entire packet in which even the Denver Post, one of our main newspapers, wrote its head editorial asking what in the world is going on. I think it is very important to be aware of it because this type of thing is very frightening.

Let me ask another question and it is about the annual report that you put out. My understanding is that two were printed. The first one had Carlin's signature on it and then it was destroyed so that your signature could go on.

And as I look at all this, I find that a little mystical. We went back and did some historical research and found when Bill Bolger was being replaced by Carlin he went ahead and signed the 1984 report. Why did you not want Carlin signing the report if part of the reason you removed him was the deficit and everything else? Why did you want him cleansed from it and what did it cost to print the thing twice?

Mr. CASEY. Cleansed from it?

Mrs. SCHROEDER. He was the Postmaster General.

Mr. CASEY. I do not know that it had been printed. I dealt with the draft, the printer's proof. You say it was printed?

Mrs. SCHROEDER. My understanding is it was printed.

Mr. CASEY. I will find out. We owe you two now.

Mrs. SCHROEDER. My understanding is it had been printed and was trashed, but my question is why did you do it one way under Bolger and this way this time?

Mr. CASEY. I was not here when Mr. Bolger left, but I would have done it my way.

Mrs. SCHROEDER. The Board of Governors was here.

Mr. CASEY. That is not done by the governors. The annual report is the responsibility of the Postmaster General.

Mrs. SCHROEDER. Why did you want to sign it for a year that you were not responsible for?

Mr. CASEY. The document was dated January 1986 and that is why it goes out in January 1986.

Mrs. SCHROEDER. You have not talked to Carlin?

Mr. CASEY. No.

Mrs. SCHROEDER. You just assumed this is all what? Their staff?

Mr. CASEY. No. I reviewed the report, and had no problem with it. But since it was dated January 1986 I signed it.

Mrs. SCHROEDER. Even though it is a 1985 report?

Mr. CASEY. It is a 1985 report.

Mrs. SCHROEDER. I really find it interesting because I would think you would want the person in charge in 1985 signing the 1985 report.

Mr. CASEY. The current Postmaster General is supposed to speak just like the CEO of any other corporation. Lord knows I have been in enough of them, and I would have done the same thing in any business.

Mrs. SCHROEDER. That is business practice?

Mr. CASEY. Absolutely. The current boss at the time the report is published signs the report. I have never seen it done any other way.

Mrs. SCHROEDER. I would be interested to know when the first one was printed and ready to go.

Mr. CASEY. I will find out.

Mrs. SCHROEDER. Obviously he was there, still there prior to January, a couple days, right?

Mr. CASEY. He certainly was.

[The following information was furnished:]

RELOCATION OF THE CAPITOL HILL BRANCH OF THE DENVER, CO, POST OFFICE

The present Capitol Hill Branch serves as carrier and retail unit for ZIP Code areas 80203 and 80218, a densely populated area of Denver. The building is located in the north end of a rapidly redeveloping area.

The original planning for the replacement facility called for a new building on a site in the south end of the zone. Local officials and redevelopment groups found themselves in opposition to the proposed location of the new Branch.

After reevaluation, in conjunction with the desires and needs of the redevelopment plans of the community, the decision was made to keep the existing building for use as a retail unit and to build a carrier annex on a 65,000 square foot site about one block from the existing building. Customer parking at the existing building will be expanded. The new building will be about 15,000 square feet located at the corner of Colfax and Downing.

PRINTING OF THE 1986 ANNUAL REPORT OF THE POSTMASTER GENERAL

I became Postomaster General on January 6, 1986. At that time the Annual Report was still in production. It is usual for an Annual Report to be issued by the current chief executive officer of any organization It would have been inaccurate and potentially confusing for my predecessor's name to have appeared as Postmaster General at the time of the Report's distribution.

In order to reflect the change in Postmasters General, it was necessary to edit six pages of the report. Because of the typesetting process used, sixteen of the 32 pages were actually reprinted. This added $8,043 to the initial production cost of $25,944 bringing the total to $33,987.

While unnecessary costs should always be avoided, the Annual Report stands as one of the most important documents the Postal Service is required to submit each year. It is correspondingly important for it to be as accurate as possible. I believe that the relatively small added cost incurred to reflect the chief executive change was a reasonable expense.

Mr. DYMALLY. Would the gentlewoman yield.

Mr. Casey, do you endorse everything in this report?

Mr. CASEY. I have to be responsible because I am the current Postmaster General inheriting the sins and benefits of the past.

Mr. DYMALLY. This is your document?

Mr. CASEY. Absolutely.

Mrs. SCHROEDER. What does the Board of Governors think about this? I still do not understand why all of this was so rapid. I hope you understand why we tend to be a little suspicious. There are all these issues that come up, and do you have any guidance about this?

Mr. MCKEAN. Is your question directly related to who the signatory should be on the report?

Mrs. SCHROEDER. Yes. I wonder what kind of money is being spent to reprint the report so the new guy can sign it when he was not Postmaster General during 1985 and it says the present Postmaster General Report for 1985. I guess my inquiry is, why the haste and why all the churning that went on so rapidly and especially when part of your testimony was, you were upset about Carlin's deficit which would be reported in this document. Wouldn't you want his name on that document to build the record for why you were upset?

Mr. MCKEAN. I can only answer you this way. We felt since it is a report of the Postmaster General, it was his call with regard to how the signature should be. My recollection of the Bolger situation is that Mr. Bolger, aware of the fact that he would be issuing a report in the last year of his regime, made a point of having the report completed prior to his last date and arranged for the signature of that report. So Mr. Bolger had the opportunity to be aware of the fact that a report would be issued in his name and was available for signing it. Other than that, I have no answer for you because it is a call by the chief executive officer.

Mrs. SCHROEDER. My guess, though, is Mr. Carlin did too because he had signed the one that was printed before. But, OK, thank you very much and, again, I would be very interested in finding out what is going on in the Denver situation because I think that is very critical.

Mr. CASEY. We will get back to your office immediately.

Mr. LELAND. Mr. Garcia.

Mr. GARCIA. Thank you, Mr. Chairman

First of all, Mr. Casey, why do people constantly refer to you as a Texan? You are not a Texan.

Mr. CASEY. I live in Dallas.

Mr. GARCIA. You live there, but we have people in the State of New York who were born in Texas still refer to themselves as Texans.

Mr. CASEY. I have lived in about seven States, so you can call me almost everything.

Mr. GARCIA. I know you, Mr. Casey, from the days of the Municipal Assistance Financial Corporation, Big MAC as we know it today. When I was a State senator in 1975, we formed that corporation and you were one of the active board members in saving the city. I want you to know here, in 1986, we New Yorkers are appreciative of your fine work.

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Mr. CASEY. Thank you very much. Tell Mr. Koch to forgive me.

Mr. GARCIA. We have not forgiven you entirely. You moved the operation to Dallas and left us. That is a corporate decision. I won't get into that.

Mr. McKean, let me ask you a couple questions. I think this subcommittee and this full committee have dealt fairly well with you over the years. I think there was some controversy surrounding your appointment, some controversy surrounding some dealings you have had. I believe the times when you have come before this committee we have been very fair in giving you an opportunity to come and state your case, put it on the record and be able to say very fairly and openly what it is you did. Is that a fair statement on my part?

Mr. MCKEAN. It certainly is, Congressman.

Mr. GARCIA. I was not a Member of the Congress of the United States when they reorganized the Postal Service. I was in New York. In trying to get some history from the members of the committee who were here, I have been told that one of the main reasons why we had the postal reorganization was to get politics out of the Post Office. I think for the most part that we have accomplished that up until about 1982, 1983, 1984 and now the Board of Governors has replaced Members of the House and Members of the Senate as the politicians running the postal operation.

And I must tell you very frankly that I am among those who are terribly disappointed with the manner in which the Board of Governors has been functioning. They have been running this as a private corporation. They have been running this with their own views and own thoughts, with no regard whatsoever for the people they must serve.

And, Mr. McKean, I must tell you that as far as I am concerned, I have read this report for 1985 and I think it is a good report, and I must tell you that in reading this report that there were a lot of good changes being made by Mr. Carlin. I also want you to know something else. I had an opportunity to talk to Mr. Carlin and the gentleman that he is—in his very mild manner said, "Bob, please, under no set of circumstances should I become an issue—the decision was made and I'll live with it."

Had it been somebody else, they would never have stood for it without going public, and I just think it is a credit to Mr. Carlin that he chose not to.

Mr. McKean, I want you to know that this to me, what the Board of Governors has done, is just going to make it much more difficult. We, in Congress, have to monitor everything you do carefully. I think we have been lax. I chaired this subcommittee for several years before I gave it up to go back to Census and Population. But I think that, as a member of this committee, and as a member with some seniority, now in my fifth term in this committee, that we have to monitor the Board of Governors very closely because the members of the Board have become the politicians of the postal operation.

I just think that everything was going along just fine at the Post Office. I think that Bolger was a good Postmaster General. I think that Carlin was a good Postmaster General. I just cannot find any

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good reason, except maybe they were not subservient to the wishes of the Board of Governors.

It is along that line I would like to ask you, Mr. Casey, a question. You came on board in January of this year; is that fair?

Mr. CASEY. Yes, sir.

Mr. GARCIA. Within the period of less than 1 month, four people—seven people were fired. Did you get to know these people?

Mr. CASEY. The ones that were removed I got to know. The office assistants were transferred to other jobs. He had eight of them. I did not need eight.

Mr. GARCIA. Let's talk about assistant postmasters general and senior postmasters general. Seven people are no longer in the position they were in, in December 1985.

Mr. CASEY. No; it is three or four.

Mr GARCIA. Let's say four.

Mr. CASEY. All right.

Mr. GARCIA. You get to know these people?

Mr. CASEY. Yes, I spent an extensive amount of time with each of them, expressed my concern and asked them for solutions. Each of them was in a position or a function that, given their background and experience, they were unable to direct. That was the real basic problem in every single case. They had been transferred from another position or they were just not able to do the job.

Mr. GARCIA. Well, it just seems to me that I do not think with positions of that magnitude, Mr. Casey, that less than 30 days is an adequate time for review of their performance—I just think that maybe some of those people were predestined to no longer to be functioning members of the Postal Service prior to your arrival. Maybe it had nothing to do with you, Mr. Casey. I do not know.

Mr. CASEY. In light of what I just said, I think that is probably a fair statement.

Mr. GARCIA. At a press conference making the announcement, Mr. McKean, you mentioned that the Postal Service would do its part in resolving the national deficit. It was Mr. Carlin who had 16 years of experience with the Postal Service who was successful in reducing that deficit.

Where was the real problem with the Board of Governors and Mr. Carlin? Was the only option to replace Mr. Carlin?

Mr. MCKEAN. No, it was not the only option, Mr. Congressman. It was an option we decided was best for the U.S. Postal Service.

Mr. GARCIA. When you say, "we," do you mean the the Board of Governors?

Mr. MCKEAN. Yes, sir.

Mr. GARCIA. Was a vote taken? Was it unanimous or was it 9 to 0, whatever the number is on the Board?

Mr. MCKEAN. It was a unanimous vote, Mr. Congressman. Perhaps I should add one other aspect of this process to you. We do not wish it to be in any way interpreted as a criticism of the entire postal organization. We do believe that there were some people at management levels below Mr. Carlin that acted promptly, efficiently, and with dedication to accomplish the reduction of what was a projected deficit of some $500 million. What we do believe is that they could have reacted a bit faster, and our process of making the decision with regard to Mr. Carlin, quite independent of whether

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Mr. Casey would be his successor or not, involved talking to people at high levels of management and asking them their opinion about how the organization was functioning.

Mr. GARCIA. Do you think a year is sufficient time for anyone to run a multibillion dollar corporation? Is the Board of Governors that so well versed in postal operations they are able to get to the bottom line immediately within 365 days?

Mr. MCKEAN. I wish, Congressman, that the process in Washington was such that immediate actions on matters that involve security problems could be taken. I do not think that our organization is unusual. I think we are——

Mr. GARCIA. When was the last time something like this happened, Mr. McKean?

Mr. MCKEAN. I can only speak from my own tenure on the Board, and I arrived here in March of 1982 and it did not take place during that period of time. Mr. Bolger at some time shortly after my arrival indicated he wished to depart, and there was an orderly transition.

Mr. GARCIA. Can you give us any history where any Postmaster General was fixed—where we had a number of Postmasters General in such a short period of time?

Mr. MCKEAN. The matter of historical precedence for our action was not considered whatsoever. We believe that based upon our interviews with top management staff that this was the right thing to do.

Mr. GARCIA. Are we partners? The Board of Governors and the Congress, is there a partnership involved here?

Mr. MCKEAN. There certainly is.

Mr. GARCIA. Was the chairman of the full committee, the chairmen of the subcommittees informed as to the firing of Mr. Carlin prior to the public announcement?

Mr. MCKEAN. No.

Mr. GARCIA. Why?

Mr. MCKEAN. Congressman, it comes down to the interpretation——

Mr. GARCIA. Are we partners?

Mr. MCKEAN. If I may answer you, it is a partnership which I at various times enjoyed.

Mr. GARCIA. I think, Mr. McKean, you have been a beneficiary of this subcommittee.

Mr. MCKEAN. Yes, sir.

Mr. GARCIA. I think so. If you want to get into verbal gymnastics, I would be delighted to entertain that.

Mr. MCKEAN. No, I do not. As a matter of fact, what I wanted to point out to you is I think our primary responsibility is to follow the mandate that you gave us. You gave us the Postal Reorganization Act which said essentially maintain the fiscal integrity of the U.S. Postal Service, keep politics out of the U.S. Postal Service. Our interpretation of that is that we should exercise independent judgment with regard to who should serve as the chief executive officer. Oversight in our opinion does not involve veto power over a decision that we have decided to make. It does not involve it from Congress nor does it involve it from the White House. We would

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tolerate no such interference from that quarter and we try to, as soon as possible, convey to you what our decision was.

Mr. GARCIA. Are we partners?

Mr. MCKEAN. We are partners.

Mr. GARCIA. Why was not the chairman of the full committee, the chairmen of the two subcommittees involved directly with postal operations informed prior to the announcement?

Mr. MCKEAN. I can only tell you that our interpretation of what the Postal Reorganization Act conveys, that that is the judgment. Were we to have---

Mr. GARCIA. Then we are not partners?

Mr. MCKEAN. Now it seems as if we may be involved in verbal gymnastics, because I believe we are partners in that we share a common objective and that is preserving the U.S. Postal Service. I also believe that our objective in replacing Mr. Carlin and hiring Mr. Casey was in furtherance of that end.

Mr. GARCIA. I have no problem with you hiring Mr. Casey.

Mr. LELAND. Will the gentleman yield?

Mr. GARCIA. Just one second. I just hope the same fate—does not await Mr. Casey---

Mr. CASEY. I have a backup position.

Mr. GARCIA. I appreciate that. But let me say that it appears that the partnership only exists then as it pertains to what the Board of Governors wants to do. They will do it and the members of this committee will read about it in the newspaper.

Mr. MCKEAN. No, I would not want to convey that at all. In fact, I believe I have attempted to maintain a personal relationship with Congressman Ford, have informed him of matters that trouble us with regard to rates, with regard to policy matters of that type. With regard to the selection of the chief executive officer, our interpretation of the Postal Reorganization Act, right or wrong, is that we should move based upon our independent judgment.

Mr. GARCIA. I will yield to the chairman.

Mr. LELAND. I thank the gentleman for yielding on this point.

Mr. McKean, earlier we talked about your instructions to us in terms of protocol. Let me suggest to you that just as a matter of professional courtesy the chairman of the Board of Governors should have informed. at the very least, the chairman of the full committee on the matter of the termination of one Postmaster General and the hiring or the proposed hiring of another Postmaster General just as a matter of professional courtesy. It has nothing to do with the policies laid out in the reorganization of the Postal Service. Don't you agree with that?

Mr. MCKEAN. It is hard to argue with the fact that one should not violate what another party considers to be professional courtesy. To that extent I apologize. The decision did come before us, had to be made in our judgment quickly and we made a point of contacting everyone to notify—perhaps the best way to insulate against the fact that any political considerations came into our judgment was that we did it and we notified after we did it. We run the risk, as you have quite correctly pointed out, that may be regarded as a breach of professional courtesy.

Mr. LELAND. I would suggest that would be the case. It is a hardship on members of this committee, particularly Chairman McClos-

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key and myself, who chair the respective subcomittees and, more particularly, the chairman of the full committee. When changes like this occur, what happens is that inevitably the news media will contact us and we have to speak off the cuff on an issue that we are unfamiliar with. Because of this lack of information we may even say something that might be damaging to the perspective of what it is that you have to do as chairman of the Board. and, of course, what it is that your Postmaster General would have to do in terms of his or her responsibilities.

I thank you.

Mr. Garcia.

Mr. GARCIA. I would like to follow up with the point that you just made. You said the decision had to be made quickly. Is that fair?

Mr. MCKEAN. Yes.

Mr. GARCIA. Wasn't the search committee going on for a 90-day period?

Mr. MCKEAN. Yes.

Mr. GARCIA. Ninety days is not quickly. Obviously, there was a group of people actively searching and looking for a replacement for Mr. Carlin.

Mr. MCKEAN. I can only say to you that the candidate that became available to us, converging with the other notion, that we felt it was necessary to make a move, are the two circumstances that caused us to do what we did. We are sorry if the members of this committee regard this as a breach of professional courtesy. I have attempted from time to time to establish personal relationships with several of the members, and we try to do our job as best we see it.

Mr. GARCIA. So that, in fact, the decision was made quickly, but there was still a search committee out there for a 90-day period.

Mr. Chairman, I think I have taken enough time of the committee, but I just want you to know that I am delighted these hearings are finally being held. The announcement of Mr. Carlin's firing and Mr. Casey's hiring was made when Congress was not in session, and when there was a good month before we would get back into session. So I thank you for this hearing.

Mr. LELAND. I thank the gentleman for his contribution.

Mr. Casey, it is my understanding you have been invited to meet with the president of the National Alliance of Postal and Federal Employees, a predominantly black employee organization, but you declined all invitations from them. Is there any particular reason why?

Mr. CASEY. No. I have not declined invitations from any of the national groups. Requests from certain geographical locations. I just cannot do. I have already met with several associations and I certainly would meet with the National Alliance.

Mr. LELAND. Can you give us some indication as to which ones you have met with?

Mr. CASEY. I have only met with the Supervisors organization, the League of Postmasters, and NAPUS.

Mr. LELAND. What about the national unions?

Mr. CASEY. No, sir. I have told them I will come whenever they have a gathering.

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Mr. LELAND. Have you met with representatives of any of the other postal employee organizations?

Mr. CASEY. I do not think I have been approached by anyone.

Mr. LELAND. Mr. Carlin brought overtime cost overruns under control by hiring full-time permanent employees rather than relying on continued use of the overtime. Do you plan to continue this policy?

Mr. CASEY. Where appropriate, yes.

Mr. LELAND. As I am sure you have learned, in the 1980s the Postal Service has produced nothing but failures in terms of new policies and programs. I am referring to the nine-digit ZIP Code, e-com service, airline contracting and others. Have you developed any opinions on why this is so?

Mr. CASEY. Well, not as a group. I have looked at each of the subjects you mentioned and found inadequate planning, insufficient bargaining, and some other things.

Mr. LELAND. Do you have any plans or intentions to move towards privatization of mail services?

Mr. CASEY. No, sir. I might do more contracting but not privatization as I heard it defined here today.

Mr. LELAND. Mr. Casey, to use Mr. McKean's term, "verbal gymnastics," can you see a move to using more contracting as a form of privatization?

Mr. CASEY. I do not intend that at all, but I think we should use supplementary contracting, particularly in the movement of mail by air and over the road, naturally.

Mr. LELAND. What are your attitudes about the areas in which the Postal Service is engaged in head-to-head competition with the private sector?

Mr. CASEY. That is a tough one. I do not think I know enough about it. I have been on the other side for so long that it is hard for me to jump over to this side.

Mr. LELAND. You are going to work hard to be objective?

Mr. CASEY. I am going to try very, very hard to be objective.

Mr. LELAND. The Postal Service continues to have a dismal record in the field of opportunities for minorities and women and in hiring levels in contracting. Are you planning to put any priority in making improvements in these two areas?

Mr. CASEY. I really hope to begin. We talked about it earlier this morning. I do not have the figures or data on that.

Mr. LELAND. I am particularly interested in contracting for minorities, vendors. Minorities have gained an equitable piece of the pie, so to speak, in terms of the billions of dollars that are being spent on a daily basis in this country for contracting. Mr. Carlin was very much committed to the idea and the ideal of contracting with minorities and had made, before this committee, a commitment to escalate doing business with minorities. Can I expect the same thing from this Postmaster General?

Mr. CASEY. I can speak to my own record. I have done it in New Orleans, Kansas, St. Louis, and Chicago. I understand how it is done.

Mr. LELAND. Now you get a chance to do it in America.

You asked for the resignation of the only black woman Assistant Postmaster General. This move has caused great consternation

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among minorities and women's organizations. When you made this decision, did you anticipate this reaction and are you now planning any action to help allay the fears of these employees?

Mr. CASEY. I was doubly careful for the reasons that you point out.

Mr. LELAND. Can we expect—and I guess this relates back to Mr. Dymally's questions concerning the upward mobility of minorities—the opportunities facilitated by a person like yourself? Can we expect the promotion of more minorities in areas like Assistant Postmaster General, particularly minority women?

Mr. CASEY. I feel I will be particularly sensitive to that, and I know your goals and objectives.

Mr. LELAND. Last year the Postal Service attempted to change a regulation which would have had the effect of eliminating the practice known as international remailing. All but one of the comments received during the comment period were opposed to the change, including a very strong opposing view from the U.S. Department of Justice. Since then the Department of Commerce has also stated its objection. The Postal Service has claimed that international remailing is illegal. However, the Justice Department's opinion is to the contrary. In light of this, can you tell us what to expect in the future on this issue?

Mr. CASEY. It is a very complex issue and, as I've stated, I have only been there a month. I do not mean to hide behind that, but we are working on it. We are giving a presentation to the Board of Governors in March, and we will have to resolve the issue and take a position on it. I am familiar with the subject.

Mr. LELAND. As you know, the failure of the airline contracts negotiated by the Postal Service in 1984 was one of the major reasons for the financial problems suffered by the Postal Service in the first part of 1985. As the Postal Service prepares for a new round of contracts how do you plan to avoid a reoccurrence of a similar situation?

Mr. CASEY. I really won't have the same situation at all this time. The last time when those contracts were negotiated it was the first time after the airline deregulation that the contracts had been done, and air mail contracts were not deregulated as soon as the airlines were. This was the first contract. The Postal Service very unwisely thought that once the contract it went out for bid to the public, with all of the competition to carry the mail, that they would get lower prices. Well, if they had talked to any airlines and were really sensitive, they would have realized those rates had been depressed for decades. The airlines were just waiting to get rid of that whole thing. So they came up and bid on this system segment business and, of course, the Postal Service was going to pay more and they lost their priority. The Postal Service cannot schedule the airlines. This time we will try a new system called networking, and we hope it will work. We are going to be in consultation with all parts of the industry and hopefully be better prepared when we go out this month or next month.

Mr. LELAND. I am certainly glad you mentioned that because we have said that too. Looks like we are becoming partners very quickly.

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The nine-digit ZIP Code Program has been badly mishandled since before its inception. How do you plan to get it on the right track and what do you think the right track is?

Mr. CASEY. Well, we are in competition with ourselves with the nine-digit ZIP Code and so forth. Some of our services such as the presort program give our customers a vast majority of the discount and make it unattractive to change over to the nine-digit ZIP Code. We need it. We need both that and the multiline reader. There are many advantages to getting a larger share of the mailers to use the nine-digit ZIP Code. We are working very hard and sending people out trying to convince companies individually to take advantage of it because the benefits are enormous once they start using the nine-digit ZIP Code.

Mr. LELAND. If you were to find considerable evidence that the nine-digit program is a failure and that another approach to automation would be best, would you be willing to make the decision to abandon it and take up another approach?

Mr. CASEY. I do not think the nine-digit ZIP Code is a failure. I do not think it went along as fast as we hoped it would, but we must have both the nine-digit ZIP Code and the multiline. We need both.

Mr. LELAND. Thank you very much.

Mr. CASEY. Thank you.

Mr. LELAND. Mr. Horton.

Mr. HORTON. Thank you, Mr. Chairman.

Mr. Casey, my earlier questions were directed to the Chairman of the Board of Governors, Mr. McKean. I would like to direct a few to you.

I realize that you have had this other commitment and you could not be selected on a permanent basis. I asked Mr. McKean with regard to the term. What is your understanding with regard to the term and what commitments do you have in the future?

Mr. CASEY. Well, I would say that my commitment is to stay there until my successor is aboard. If that is the Fourth of July then, so be it. It could not be before that time because they could not put the analysis together that I am working on until just about the Fourth of July. So I would say that would be the earliest time.

Mr. HORTON. What is the limit? How long can you stay? You have a commitment, as I understand it, at SMU.

Mr. CASEY. Yes, I do.

Mr. HORTON. When is that commitment due?

Mr. CASEY. I went back and told them once I took this job, that if I was unable to leave, because I did not have a successor, I would have to forego my SMU commitment.

Mr. HORTON. Are you thinking in terms of a permanent or are you thinking in terms of a temporary? You just waiting for a successor?

Mr. CASEY. That is not all I am doing. While I am waiting for a successor, I am going to play a very active role.

Mr. HORTON. When you say, "an active role," what does that encompass? Does that encompass this plan you talked about before, management plan?

Mr. CASEY. What this really means——

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Mr. HORTON. Let me ask it another way. What do you expect to accomplish in the time you have?

Mr. CASEY. That is a very different question. I hope to examine the organizational structure and the grouping of the functions and test the competence of the people that report to me and the people that report to the people who report to me, the old one-on-one principle. That is as far as I intend to go into the organization.

Mr. HORTON. In that regard let's say you picked Person X, selected by you based on your management proposal, to be in a key position, the successor to you. There certainly would be no reason for that successor to adhere to the same management plan that you got.

Mr. CASEY. No.

Mr. HORTON. He may have different ideas.

Mr. CASEY. You are absolutely right.

Mr. HORTON. In a way we are just spinning our wheels, aren't we?

Mr. CASEY. No. I think what I am doing is an ordinary and natural process. We have explained it to the Board of Governors, and they have given their approval. I would expect no one would come aboard unless they were in agreement with the plan.

Mr. HORTON. Now, there are some major problems down the road. One of the major problems—and I do not know just exactly when it occurs—is the contract with the Postal Workers.

Mr. CASEY. Yes, sir.

Mr. HORTON. When are these contracts up?

Mr. CASEY. In the summer of 1987.

Mr. HORTON. When do you start beginning to get your team in place, so to speak?

Mr. CASEY. In the spring of 1986.

Mr. HORTON. That is this year.

Mr. CASEY. Right in front of us.

Mr. HORTON. What are you doing with regard to that?

Mr. CASEY. I have been talking with the people in charge of that function. We are developing strategy, facts, and have put together a team already.

Mr. HORTON. That team will have to work for some period of time after you leave.

Mr. CASEY. Yes, but it is closely tied to the Board of Governors.

Mr. HORTON. Are you working with the Board of Governors in this respect?

Mr. CASEY. Yes.

Mr. HORTON. What do you expect the private express statutes to mean? You were referring to some other member mentioning it. Do you have an understanding with regard to what the private express statutes mean?

Mr. CASEY. I believe I do. I think I understand the suspensions that have taken place under it.

Mr. HORTON. No. The private express statutes, as I understand, give the post office a monopoly so the post office can operate. The way I compared it, it is like the telephone situation, and I have likened it to that situation. There was a telephone situation, and the courts made it change. So now you got all these private companies doing this and doing that. We got all sorts of telephone bills, a lot

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of complications, the bills have gone up and I think a lot of people say if they could put Humpty-Dumpty back together again they would do it.

In a conversation I had with a constituent a couple years ago he said the Post Office is one of the miracles of the world. You are able to take a letter and within a reasonable period of time have that letter delivered to the place that you want it to go. And I think in general the Post Office has been doing an excellent job in that respect. There are little post offices like Pultneyville and North Rose. They had a little one-man operation, and the Postmaster decided he was not going to be there anymore, and the little town is very anxious to get their postmaster and keep the post office there.

One of the recommendations of the Commission that was organized by the President, which he mentioned last night, the Grace Commission, was to do away with all these little post offices. Have you got an idea with regard to that?

Mr. CASEY. Well, I really am wide open to listen to everything, but I understand the charge by Congress to the Postal Service is universality of service and we must be committed to that.

Mr. HORTON. The reason I am mentioning this is I think the private express statutes are very important to the overall operation of the Postal Service; and when the Board of Governors was here, we went right down the line and asked each one of them what their views were. And when we had the oversight hearings last year over the Post Office, the Postal Service, the Postmaster General replied and he indicated his full support for the private express statutes. You have been on board long enough so I am sure you are familiar with that, and I would just like to ask you what is your position with regard to the private express statutes?

Mr. CASEY. I am, very much in favor of the private express statutes. I was only referring to Postmaster General Bolger's suspension of certain parts. He gave up certain of the monopoly rights, if you recall.

Mr. HORTON. Let me ask it a different way. Mr. Miller, who is now the director of the Office of Management and Budget, has said when he was the head of the Federal Trade Commission that he thought that the private express statutes should be done away with and that the Post Office should be sold and turned over to the private operation. As a matter of fact, the President's budget will have some recommendations to dispose of Government properties, and I do not know whether this is in the new budget or not. I have not talked to Mr. Miller about this, but there is a feeling in the country that perhaps we should do something to change the private express statutes and that is a real concern. My concern is if the price of stamps gets too high and the cost of doing business gets so much, that in and of itself can kill the private express statutes and the Post Office as we know it today.

So that is why I am very much interested in the economy and the Inspector General and all the other things, the oversights and so forth. But I am interested to make certain that the Postmaster General is committed to the Postal Service as it is today known, and he is not going to get rid of these small post offices and he is not going to put out to the private sector all of the profitable aspects of the Post Office and just keep the dregs so that we have got

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a problem in that we do not have the paying part of the operation and then the Postal Service is not meeting the function it has today. So I wanted to make sure that is your position with regard to that.

Mr. CASEY. Absolutely. I disagree with Mr. Miller whole heartedly.

Mr. LELAND. Chairman Ford.

Mr. FORD. Thank you.

I wanted to know what was going to be in the budget so I could see what the policy is going to be with this administration, and the Heritage Foundation has a document for the budget, "Slashing the Deficit in Fiscal 1987, Prepared by the Staff of the Heritage Foundation, Budget of the United States Government." And I found it very interesting when we got the budget this morning they were remarkably accurate; even to the exact words that are in the budget language that came up here with regard to the Postal Service.

And they made four specific recommendations. The first was to end all of the U.S. Postal Service direct subsidies to preferred mail users. That is one of the changes the budget actually proposes, instead of wiping it out.

Two, require the USPS to require the funding of liabilities of the civil service retirement fund. We already discussed that. And eliminate nonfunded, subsidized Federal employees health benefits. And we discussed that.

The fourth one which did not show up in this language in the budget is "privatizing" the Postal Service. And at the end of that recommendation it says,

> In the final stage of privatization regulations which prohibit private sector couriers from directly competing with the Postal Service in large urban areas should be lifted.

That is because the only monopoly the Post Office has is letter mail, and the piece of the Post Office that private enterprise wants to get is large urban areas. They are not interested in Alaska and they do not care about rural Montana and rural New York and rural Michigan. They care about the place where you have a high concentration of customers. That is the place you make your profit.

I would like to get together with you after the meeting and ask you to have your people peruse it and give us a response to this, because I have found that this is a very accurate predictor of what I am going to have to confront somewhere down the line. They have an extraordinary Ouija board over there that preguesses what the policy is going to be. In fact, if they persist in this very direct recommendation with the language, I would like particularly a response to the rationale for all of these things that are contained in about a page and a half of type so that we might see how you and your management team react to these kind of proposals.

And then, finally, a question was raised this morning which, indeed, at this stage would require speculation as to how you would adjust to these changes—particularly the economic changes. I think the committee wants to do something more than simply respond by instinct and pressure groups. We have plenty of pressure groups coming to the Hill, but we would like to do something that

we feel was making an informed jugment. And you are our CEO, you are the top manager with presumably staff, you and Mr. McKean, with the expertise—as to what we would have to do if we take step one, two and three of the budget as it is recommended, what your response would have to be or, indeed, if you could, in fact, respond.

One final thing. It occurred to me, listening to your conversations with the other members, that you are in a unique position to do something for the Post Office that needs to be done. It became very clear to me when the CAB sunsetted, the Post Office had not planned well enough for what the airlines were going to do to them and non-scheds, and it became all of a sudden a seller's market. And the price went up. But even more importantly, the availability of cargo space dried up because we lost our priority, and the Post Office started buying trucks and contracting with everybody that had something that would move mail. And the service went to the devil and costs went through the ceiling, and that is a very large part of the losses the Post Office was running up in early 1985.

A former Postmaster General, I understand, has taken over as president of the Air Transport Association. You have been around those fellows for a long time. It is their habit to get together, without any serious problems with the antitrust law, to enter into a whole lot of cross-arrangements. Do you suppose they could voluntarily undertake some kind of a plan and give the Post Office more stability in being able to plan for cargo space? And, if not a priority like we formerly had, some kind of a concern that if not this plane, then surely the next one, because we understand that when cargo space becomes available the airlines are hard pressed by their other customers when we push a lot of mail into their available space.

But is it feasible that the industry could get together with the post office and work out some kind of a gentleman's agreement to give the post office some certainty as to what is going to be available?

Mr. CASEY. It has already been suggested, but there are certain legal ramifications we have to be careful about and the ATA has to be careful about, such as price setting and restricting competition.

Mr. FORD. I recognize the antitrust problems, but there is an equally important problem of price. Not asking them to agree to a maximum charge or anything of the kind or maximum schedule, but perhaps they could alleviate the other part of the equation; that is, the uncertainty in many parts of the country because it gets shifted around. Do they get notice of when these shifts are going to take place and they can make alternate plans for moving the mail?

Mr. CASEY. Let's say you are going to contract for block space, out of St. Louis. On a single night you do not know how many mail bags are going to come in and you do not know whether that mail will pass through St. Louis. That is the sort of thing that the Postal Service has to prepare for.

Mr. FORD. But the other thing that happens is now they can discontinue a route with no notice to anyone. The Post Office does not know that there is not going to be a plane flying from Detroit.

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Mr. CASEY. The Postal Service is given operating notice, about 90 days in advance, because of schedules and other things have to be changed.

Mr. FORD. While you are organizing, you better take a look at the communication system you have because Detroit does not get the word 90 days ahead of time and Detroit is the hub for moving all of the mail not only for Michigan but a good part of Indiana and Ohio. That airport out there, which is in my district, moves a tremendous volume of mail. In the summertime it is no big problem to get into northern Michigan and Wisconsin because it is the tourist season and everybody wants to fly through. But these airplanes are in Florida and they won't be back until the snow goes. You can get all kinds of space to move your mail around right now in Florida, and you would have trouble in the summertime when all the equipment comes back up north. In the old days we kept them flying the route to Traverse City in the middle of the winter if we had only two passengers. But we always got our mail through.

I am informed we have problems that arise when they have a volume of mail coming through and a lot of equipment gets moved by several airlines that serve the boondocks of our State. I have no intention to insult the people who live outside of my district. I use that expression occasionally, but the northern portions of the State nevertheless have pockets of industry and other things that generate a lot of traffic.

We are hauling mail on the highways longer distances than we had been hauling it since the postal corporation started. And we are really getting very big in the truck business, either directly or through contracting, and nobody is making that much money in the trucking business. I am not sure that it is in our long-term interest to end up with one of the largest trucking companies in the country. The airlines are the last big chance for our transportation system. The railroads went the way the airlines were going in the initial stages, but unlike the railroads I hope the airlines will stay in business. We first lost regular train service and then passenger service, but there were still some trains running.

But it seems to me that you do a very effective job of getting them to look at the post office, perhaps as a public responsibility—that they might like to tout something as something they did for the American taxpayers.

Mr. CASEY. That is a hard message to get across to a deregulated airline industry.

Mr. FORD. Thank you very much.

Mr. CASEY. I shall try.

Mr. LELAND. Mr. Garcia.

Mr. GARCIA. I shall try to be brief. One of the things that troubles me, Mr. Casey, is, that you are not going to be there for any real length of time. I think that historically we have always had people in a position as Postmaster General where they have been able to spend some time there and learn and understand the business. What troubles me is you are only going to be there for an interim period and we are not going to have your services beyond 6 to 9 months.

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But just let me make some suggestions, if I may. It seems to me that the Board of Governors today is becoming a very powerful tool. The Board of Governors today are taking it upon themselves to run the Postal Service. The political philosophy within that group may trouble some of us but that is the reality of life. When you win, you win and when you lose, you lose. We lost in 1981 so they have got the ball and it is in their court.

But it has been brought to my attention now the Board of Governors are hiring a group of people. They have hired labor consultants and public relations people now and they have got management consultants and lawyers. They have got their own little bureauracy. It just seems to me with all of that available to the Postal Service why should there be a duplication with the Board of Governors.

Let me use an example. It has been brought to my attention that when the press release went out on the firing of Carlin it was not even put out by the Postal Service. It was put out by some public relations firm. I mean that just does not make sense to me. I mean there is something wrong there when we have a multibillion dollar operation and the press release does not come from that organization but comes from a private public relations person. It is crazy.

Would you like to respond to that?

Mr. CASEY. They were concerned about a leak internally, so they obtained the services of an outside consultant. That is all there was to it.

Mr. CARCIA. Are these people still functioning?

Mr. CASEY. Until February 1.

Mr. GARCIA. This week they are terminated?

Mr. CASEY. Yes, sir.

Mr. GARCIA. Just let me in closing say to both you gentlemen, especially you, Mr. Casey, I wish you well. I hope your office will call about the possibilities of having lunch. I would like to follow up on that.

Mr. CASEY. I would like that very much, Congressman Garcia. Let me add we did discharge several of the management consultants.

Mr. GARCIA. Let me just close by saying that I hope the same fate does not befall you—and I am sure it won't—that befell Mr. Carlin. I wish you well and please, for pete's sake, I really want to know why a letter from the Bronx to Manhattan takes a week and a letter from Manhattan to California takes 2 days. Will you solve that problem?

Mr. CASEY. The airplane does not stop.

Mr. GARCIA. That is the answer. Thank you very much.

Mr. FORD. Mr. Chairman.

Mr. LELAND. Chairman Ford.

Mr. FORD. We had addressed a letter to Mr. Casey on the same question that was just asked earlier. And you responded on February 4 that enclosed is the written agreement and the purchase order for engaging a public relations firm, Miner and Fraser, a detailed proposal of what they will do. And the agreement provides for compensation not to exceed $19,000. You go on to say, "Miner and Fraser is a well-known public relations firm. It is my understanding that Miner and Fraser was one of several public relations

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firms recommended to Chairman McKean and other Governors by William Spartin of MSL International, the firm working with the Governors on the search for a new Postmaster General."

We have not had a chance to share this with the rest of the committee yet because it just came to my attention this morning. But I am sure if they have any further questions that are not answered, they will be glad to forward them to you. You even provided us with a biography, which is a very interesting description of how Washington works, entitled, "What happened to Edie Fraser?" It is a question I have heard asked before.

Mr. CASEY. I could not hear you.

Mr. FORD. You have that high visibility public relations firm.

Mr. CASEY. Yes, for a short period of time.

Mr. LELAND. Thank you, gentlemen. Thank you very much for your contributions today. I look forward to working with both of you in the future and hope we will expedite our relationship. Thank you very much.

[Whereupon, at 12:40 p.m., the subcommittees were adjourned.]

[The following responses to requests for additional information were received for inclusion in the record.]

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House of Representatives
Committee on Post Office and Civil Service
Washington, DC 20515

TELEPHONE (202) 225-4054

February 3, 1986

The Honorable John R. McKean
Chairman
United States Postal Service
Board of Governors
475 L'Enfant Plaza, S.W.
Washington, D.C. 20260-0010

Dear Mr. McKean:

I understand that the Governors have retained the services of a technological consultant. To my knowledge, this brings to three the total number of outside firms retained by the Governors (the others being the Dewey, Ballantine and Smiley, Olson law firms).

In preparation for Wednesday's hearing, I would appreciate receiving from you the following information concerning this consultant's retention:

1. The name of the consultant;

2. A complete copy of the written retainer agreement, if any;

3. A complete description of the work which the consultant is to perform for the Governors;

4. A complete statement of the compensation to be received by the consultant from the Postal Service (including reimbursement for expenses);

5. A complete description of the consultant's background and qualifications;

6. A complete description of the manner in which the consultant's name was brought to the Governors' attention;

7. The name or names of the individuals who referred or recommended the consultant to the Governors;

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8. A statement of the planned duration of the consultant's retention by the Governors; and

9. A statement of the Governors' justification for the retention of this consultant.

I thank you for your cooperation.

With kind regards,

Sincerely,

WILLIAM D. FORD
Chairman

WDF:jcj

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BOARD OF GOVERNORS
Washington, DC 20260-1000

February 4, 1986

Honorable William D. Ford
Chairman, Committee on
Post Office and Civil Service
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

This responds to your letter of February 4 inquiring into the Board's retention of the services of a "technological consultant." Let me assure you that the Board has not retained a consultant. Last fall, the Technology and Development Committee was assessing a potential need for a technical consultant to advise its members regarding certain aspects of the mechanization mail handling operation, especially in evaluation of contract proposals and equipment acceptance tests. Indeed, the Board did receive a briefing in January by representatives from The Hay Group but neither was a contractual agreement made nor is one planned.

Please let me know if you desire further information.

Sincerely,

John R. McKean
Chairman

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BOARD OF GOVERNORS
Washington, DC 20260-1000

February 25, 1986

Honorable Frank McCloskey
Chairman, Subcommittee on Postal
Personnel and Modernization
Committee on Post Office
and Civil Service
House of Representatives
Washington, D.C. 20515-6250

Dear Congressman McCloskey:

This is in response to your February 7 letter transmitting for my response additional questions for the record of the February 5 joint hearing of the Subcommittee on Postal Personnel and Modernization and the Subcommittee on Postal Operations and Services.

Enclosed are my responses. In several instances, questions asked of me were identical to those asked of Postmaster General Casey following the joint hearing, and to which Mr. Casey has responded. I have reviewed Mr. Casey's answers and I am in accord with the information he has transmitted to your office. Where applicable, I have indicated on the enclosed my concurrence with the answers provided by the Postmaster General. For your ease of reference, I have enclosed a copy of Mr. Casey's letter.

Please let me know if I may be of any further assistance.

Sincerely,

John R. McKean

John R. McKean
Chairman

Enclosure

cc: Honorable William D. Ford
Honorable Mickey Leland

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FORD QUESTIONS FOR MR. McKEAN

1. I received no advance word of Mr. Carlin's resignation or Mr. Casey's appointment. Indeed, the Postal Service as of January 1 seemed to me to be in pretty good shape -- and the numbers bear me out. The Postal Service which Mr. Casey took over on Janaury 6 was not a crumbling house of cards.

   The Postal Service, under Mr. Carlin, finished FY 1985 with a loss of about $250 million, after projections earlier in the year which indicated that a loss of at least twice that much was possible. For the current fiscal year, the Postal Service has reported a surplus of nearly $500 million thus far -- and the Postal Rate Commission, among others, predicts that you could finish the year with a surplus of at least $800 million. Apparently, because Mr. Carlin was in charge through the first quarter of this fiscal year, he must deserve some of the credit for these numbers.

   In view of these impressive statistics -- and the flowing reports about recent improvements in service, can you tell us precisely and in detail what it is you expect Mr. Casey to do that Mr. Carlin did not do?

   Answer: With Mr. Casey's appointment, the Governors will be looking to the new Postmaster General to provide strong and vigorous leadership to the Postal Service. The Governors have not given Mr. Casey an agenda of specific changes to implement at the Postal Service. Rather, we will be looking to Mr. Casey to institute his own program to cut costs and improve the services the Postal Service provides to the public. We are confident that his nearly 40 years of experience in running large corporations, with particular expertise in the financial management area, will contribute greatly to meeting the need for more efficient management in order to assure the future self-sufficiency of the institution.

2. Mr. McKean, last June you issued a statement in which you said the Governors would be "extremely reluctant" to raise preferred rates above Step 16. To quote you, you said:

   "Even after all preferred rates are raised to the Step 16 level, we may still face a substantial gap between the revenues derived from these categories of mail and the funds that Congress was expected to appropriate. If we order a

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further rate increase beyond Step 16 in an attempt to close the gap, we will impose an extraordinary rate increase on nonprofit mailers, and our action could well prove self-defeating for the Postal Service because of the impact on volume. Under these circumstances, we would be extremely reluctant to impose any increase beyond Step 16 except as part of an omnibus rate case addressing the overall revenue needs of the Postal Service."

You announced this week that preferred rates will be raised above Step 16 effective March 9. What happened? Why the absolute reversal of your previous policy statement?

Answer: There has not been a reversal of the Board's policy stated in June 1985 regarding rates for preferred rate mail. The Governors maintained Step 14 rates from the start of FY 1986, October 1, 1985, through December 31 as mandated by P.L. 99-190. Subsequently, H.J. Res. 465 was passed and it failed to provide the necessary funding to cover approximately $65 million in attributable costs (the difference between Step 14 and Step 16) for preferred rate mail mailed during the period October 1 to December 31. In addition to the $65 million shortfall, there is the prospect of an additional $32 million cut under Gramm-Rudman. At the last Board meeting, the Governors announced that we would consider at the March meeting a possible new adjustment to preferred rates as of March 9, 1986, to close the revenue gap.

FORD QUESTIONS FOR MR. McKEAN AND MR. CASEY

1. Mr. Casey will only be with us, apparently, for six months. I have my doubts about what can be accomplished in so short a span. Mr. Casey took office on January 6. Specifically, please tell us how the Postal Service of July 6, 1986 will differ from the Postal Service of January 6, 1986.

Answer: I concur with Mr. Casey's answer in his letter to Chairman McCloskey (attached).

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2. The Heritage Foundation has just issued its postal policy recommendations for the coming year. There are four basic recommendations:

   a. Eliminate the subsidy of nonprofit and other "preferred" rates;

   b. Require the Postal Service to pay the full costs of its participation in the civil service retirement program;

   c. Require the Postal Service to pay the full costs of postal retirees' participation in the Federal employee health benefits program; and

   d. Privatize the Postal Service, beginning with contracting-out to the private sector all rural activity, followed by contracting-out of "franchising" city delivery service, and, finally, repealing the Private Express Statutes.

   Would you comment on each of the Heritage Foundation recommendations?

   Answer: I concur with Mr. Casey's response in his letter to Chairman McCloskey (attached).

3. On January 24, the Postal Service announced, under the name of Mr. Casey, that changes in several senior executive positions had been implemented -- including the position held by Senior Assistant Postmaster General James V. Jellison. Are you telling us, Mr. Casey, that after fewer than three weeks as Postmaster General you were able to assess all of these people adequately and make sound decisions about their capabilities? Or, as some suggest, is the new Postmaster General merely carrying out the orders from above -- that is, from the Governors?

   Answer: I concur with Mr. Casey's response in his letter to Chairman McCloskey (attached).

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4. I have heard that one of the major reasons for Mr. Carlin's downfall -- and perhaps Mr. Jellison's downfall -- was the handling of the "ZIP + 4" automation and procurement issue. Please tell us what, in each of your views, was done wrong by previous management and what you propose to do differently from now on.

Answer: I concur with Mr. Casey's response in his letter to Chairman McCloskey (attached).

5. I know that the impact of airline deregulation on the Postal Service has been severe. Your transportation costs have skyrocketed and your access to available flights has been greatly diminished. As a former airline chief executive, Mr. Casey, can you tell us what, in your view, can be done in both the short term and long term to solve the problems caused by deregulation? Is buying or leasing its own airplanes a realistic option for the Postal Service? Would you be willing to sit down with the President of the Air Transportation Association, Mr. William F. Bolger, and discuss this?

Answer: This question is addressed to Mr. Casey specifically and he responded to it in his letter to Chairman McCloskey (attached). I concur with that response.

6. You both are convinced that the Postal Service, to survive, must keep its prices reasonable and that the key to success is cost control and better utilization of personnel. Isn't it fair to ask the Governors to start by looking at their own costs? What is the budget for the Board of Governors this year? Please tell us, item by item, how much the Board of Governors is costing the ratepayers and taxpayers this year including salaries, expenses, staff, consultants, contractors, and law firms.

Answer: The Board is conscious of its expenses and does not consider itself immune from efforts to cut costs and achieve greater efficiencies. The Board's FY 1986 budget, approved by the Board at the October 1, 1985,

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open meeting, is for $1.2 million. The costs of the Board, as well as all postal expenses, are paid from operating revenue. The FY 1986 costs are estimated to be:

Salaries and benefits	$305,000
Travel	190,000
Supplies and Services	675,000
Printing	10,000
Miscellaneous	20,000
Total	$1,200,000

Included in "Services" above is $650,000 for outside legal counsel. There are no funds provided for the use of consultants. In addition to the above, we anticipate approximately $200,000 in costs incurred in connection with the appointment of a new Postmaster General in January 1986, the expected appointment of a successor to Mr. Casey later this year and the addition of Mr. Paul Carlin to the staff of the Board of Governors as Special Assistant to the Board of Governors.

7. In the opinion of your attorneys, does the Gramm-Rudman Act apply to the Postal Service? If so, how? If not, why?

Answer: The Board has taken no position on this matter and I have nothing to add to Mr. Casey's response in his letter to Chairman McCloskey (attached).

McCLOSKEY QUESTIONS FOR MR. McKEAN

1. Chairman McKean, on July 9th you testified before a joint hearing of these Subcommittees on the operation of the United States Postal Service. In response to a question regarding your position on maintaining the Private Express Statutes, you stated, and I quote, "I'm in support of a universal mail system, and I believe that management has to earn the monopoly. Do you believe that Postal Service management under the leadership of Mr. Carlin was inadequate to meet the goals of the Board in order to maintain its monopoly over First-Class Mail?

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Answer: The Governors selected a new Postmaster General to provide vigorous leadership to the Postal Service and to meet the need for stronger and more efficient management in order to cut costs, improve service, and assure the future self-sufficiency of the Postal Service. As you note, I have said many times that the Postal Service has to earn its monopoly. This is a task at which we can and must succeed. My own view is that maintenance of the monopoly provided in the Private Express Statutes is essential to the continuation of universal postal service provided by a federal system that has a uniform rate structure. The Postal Service now maintains more than 39,000 installations and about 175,000 delivery routes so that individuals and businesses in any community can have ready access to mail delivery. I firmly believe that we must continue to provide universal delivery at a uniform price for all Americans, and that the Private Express Statutes should be maintained.

2. Mr. McKean, can you please tell us how many positions there are at the Postal Service headquarters and their related costs? And can you also tell us the amount of the Postal Service budget? Can you explain how "streamlining" this staff can make a significant dollar impact?

Answer: As of September 30, 1985, which was the end of fiscal year 1985, there were 3,427 positions in Postal Service headquarters and related activities in the Washington, D.C., area. This figure includes, in addition to the headquarters building, the training center at Potomac, Maryland, engineering facilities at Rockville, Maryland, and philatelic support agencies in Merrifield, Virginia. The cost in fiscal year 1985 related to these activities was $151 million.

The Postal Service budget for fiscal year 1987 calls for total expenses of $32,752 million. Of that amount, $166 million is required for personnel expenses in the headquarters structure described above. The Administration has proposed to increase retirement contributions, charge the Postal Service for annuitant health benefits, and eliminate the revenue forgone appropriation. These effects, together with the anticipated impact of the Gramm-Rudman Act, would increase estimated total Postal Service expenses by $723 million, to $33,475 million, in fiscal year 1987, and related headquarters personnel costs to $170 million.

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The Postal Service management is presently studying the headquarters organization. Since the final organizational structure has not been determined, it is not possible to quantify the results of any staff reductions at this time.

3. Can you tell the Committee how many attorneys, advisors, and consultants the Postal Service has under retainer or contract? How much is being spent on their services? From whom do these attorneys, advisors, and consultants take direction and orders--you...Mr. Casey...any particular Board member? For the record, I would appreciate your providing copies of the contract for each individual under special retainer.

Answer: The Board has two law firms under contract to provide professional legal services. They are 1) Dewey, Ballantine, Busby, Palmer & Wood and 2) Smiley, Olson, Gilman & Pangia. There are no advisors or consultants under retainer or contract by the Board of Governors.

In FY 1985, the firm of Dewey, Ballantine, Busby, Palmer & Wood was paid $666,000 for professional services and expenses and the firm of Smiley, Olson, Gilman & Pangia was paid $36,000.

The Dewey, Ballantine lawyers operate under the general direction of the Board's Chairman, though at Board meetings they respond to questions from any member of the Board. The firm of Smiley, Olson operates under the general direction of the Chairman of the Board's Employment Responsibilities and Labor Relations Committee. In both cases, the Board as a whole is kept informed about all tasks assigned to our outside counsel.

A copy of each firm's contract with the Board of Governors is attached.

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4. Tell me, Mr. McKean, how would you respond to legislation which would make it clear that the Board does have the authority to obtain the services of special advisors but that the costs incurred would not be allowable costs in a rate case?

Answer: The Board of Governors has no position at this time on the proposal suggested in your question. My own view is that such a proposal would not be advisable. The Board is conscious of its expenses and does not consider itself immune from efforts to cut costs and achieve greater efficiencies. We have incurred expenses only when necessary to meet our obligations under the Postal Reorganization Act and those expenses currently represent about 4/1000ths of 1 percent of total postal costs. We are continually looking at ways to control these expenses.

5. Mr. McKean, exactly what does "marketplace perspective" mean in your statement? I understand that you are saying there are no major shifts in policies regarding rural services and post offices, Saturday delivery of mail, affirmative action, safety and, again, our understanding is that the financial situation is in good shape. So, in what areas should we expect to see change? How do you feel about "open" competition with other companies?

Answer: As I mentioned in my prepared statement, the Postal Service is facing unprecedented pressures from the outside, including increased competition from private sector expedited delivery services, and calls from a variety of quarters for the privatization of the institution. In this new environment, and at this critical stage in the life of the Postal Service, it is essential that the institution be operated as efficiently as a well run business, which is what the Kappel Commission and the Congress intended. Without the ability to operate efficiently, it cannot meet the public service responsibilities that the Congress has placed upon it. To achieve the necessary efficiencies, the Governors decided to look to someone who has had great success in running large corporations and who could bring to the Postal Service the most sophisticated management techniques available to ensure that the Postal Service

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meets current market challenges and is run in the best interest of its customers, its employees, and the American people.

As noted earlier, the Governors will be looking to the new Postmaster General to provide strong and vigorous leadership to the Postal Service. The Governors have not given the new Postmaster General an agenda of specific changes to be carried out. Rather, we will be looking to the Postmaster General to institute his own program to cut costs and improve the services that are provided to the public and that will assure the future self-sufficiency of the Postal Service. At the same time, however, we recognize the public interest role the Postal Service plays in providing rural services and post offices, Saturday delivery, and other equally important services, and there are no plans for changes in any of these areas.

"Open competition" with private companies is already a fact of life, as our experience in the expedited delivery market makes clear. This competition is already forcing the Postal Service to improve our service and be as cost-efficient as possible. This is not to say that we should abandon the Private Express Statutes, which protect our ability to meet the public service responsibilities Congress has placed upon us. As I noted in my answer to your first question, I believe that we must continue to provide universal delivery at a uniform price for all Americans, and that the Private Express Statutes should be maintained.

6. The Office of Technology Assessment and the General Accounting Office have both commented that the Postal Service has been slow to fund the types of research and development efforts which could lead to savings for the country's mailers. What is the Postal Service doing now to promote research and development in the mail processing automation field?

Answer: In February 1984, the USPS activated the Office of Advanced Technology, within the Technology Resource Department, to start a new and aggressive research and development program. This research program has been implemented to develop new equipment to automate the

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processing of all mail which is still manually sorted. In addition, research is underway to greatly improve the ability of optical character readers. Current research includes projects involving application of technologies such as robotics, machine vision, and artificial intelligence.

7. One of the few mail processing firms that have been awarded research and development contracts in the past is REI. Apparently, although the Postal Service paid for the efforts, the results of those contracts are considered proprietary to REI. Is that the case, or does the Postal Service have the right to use and disclose the information as it sees fit? If REI retains the rights, how did that happen, and what will the Postal Service do to prevent the same situation in the future?

Answer: The USPS has the right to freely duplicate, disclose, and provide to others any documentation received from REI on the RCSOCR. When equipment is purchased using technology developed at the vendor's expense (not developed under a USPS contract), our contracting regulations provide that the USPS acquire only the technical data and rights that are essential to our needs. This means we will acquire and use the data necessary to maintain the equipment, but cannot disclose it to a third party. The USPS can attempt to purchase the data outright (as was done with REI); but this is usually expensive or may not be for sale.

ADDITIONAL QUESTIONS FOR MR. McKEAN

1. When did you tell Postmaster General Carlin that he was being removed? How long did you give Postmaster General Carlin to remove himself from the offices of the Postmaster General?

Answer: On Monday morning, January 6, Mr. Carlin was told that the Governors had voted 9 in favor with 2 abstaining to terminate his appointment as Postmaster General effective that day and that his successor had been appointed to the position effective January 7.

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2. Was one of the reasons that you supposedly fired Mr. Carlin that he was "indecisive"? Was Mr. Carlin indecisive when he refused to follow the recommendations from at least two governors that a sole-source contract for optical scanners be implemented? Who were those Governors? What has happened to this contract and is it going to be given to the lowest responsive responsible bidder?

Answer: After long deliberation and discussion, the Governors concluded that new management was needed to strengthen and position the Postal Service for the future as new and stronger competitive forces enter the marketplace. The contracting issue to which you refer had absolutely no bearing on the decision to replace Mr. Carlin. The background on that issue is as follows: The Board's Technology and Development Committee expressed concern that a long delay in procuring and deploying new optical scanners would deprive the Postal Service of an estimated $1.6 million per day savings. For that reason, the Committee asked management to consider sole source contracts to speed up deployment. Management decided instead to proceed with a competitive fly-off and the full Board repeatedly affirmed its support for the course management was pursuing. The two companies competing for the contract will deliver their pilot machines this summer and following extensive testing by the Postal Service management will determine the winner for the contract award. The Board's involvement is only to approve funding for the procurement after the winning manufacturer has been named.

3. What kind of continuity of management is it to hire Mr. Carlin in January of 1985, praise him as the best man you could find, tell him to get a handle on costs which he did, and then dismiss him 13 months after he was hired? What justifies this abrupt flip-flop on the part of the Board of Governors?

Answer: Under the Postal Reorganization Act, the Governors are charged by Congress with the responsibility to select the Postmaster General and set his or her term of office. Congress assigned this responsibility to the Governors rather than the President to get politics out of the Postal Service. In exercising our responsibility,

we must be prepared to take decisive action when we see that change in top management is needed. With this responsibility in mind, the Governors concluded that the Postal Service needed new management to strengthen it and position it for the future.

4. We have already discussed the fact that there has been a lack of vendor participation in recent Postal Service procurements. What steps has the board taken to ensure that vendors are encouraged to participate in Postal Service procurements in the future?

Answer: The Postal Service Board of Governors strongly endorses the principle of full competition in the procurement process, and we have urged postal management to consider approaches that would strengthen and enhance the prospects for such competition. We have also urged management to avoid sole source procurement at every turn and to use competitive procedures at the initial letting of a contract as well as during follow-up purchases. It is postal management, however, and not the Board of Governors that must implement the policy in this area. The Board also recognizes that in order to safeguard the procurement process, contracting decisions must be left to Postal Service professionals who are charged with working with potential vendors.

5. Mr. McKean, you will recall the difficulties encountered by this Committee resulting from a proposed amendment to the Postal Appropriations Bill which, if enacted, would have resulted in a sole source noncompetitive contract for $200 million for sorting machinery. In this period of postal management realignment, how do you intend to guard against political pressure on and from your Board of Directors to influence competitive contract awards?

Answer: The Postal Service Board of Governors recognizes that it is essential to protect the Postal Service procurement process from any interference whatsoever. With respect to your question concerning optical scanning machines, you should note that management rejected a sole source procurement in this area and proposed a process

last August to make this particular procurement as competitive as possible. The Board of Governors approved this procurement process. Although questions have been raised since that time about this approach, the Board has reaffirmed its support for the plan initially presented by management and that is currently underway. We believe that the course being pursued by Postmaster General Casey in connection with this procurement and reaffirmed several times by the Board is on course and that the procurement will be as competitive as possible under the circumstances. All of us on the Board of Governors appreciate the importance of the Board's not becoming directly involved in individual procurement decisions, beyond stressing the general principle that contracts should be awarded competitively to the maximum practicable extent.

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QUESTIONS FOR JOHN McKEAN: (Submitted by Congressman Garcia)

1. When did you tell Postmaster General Carlin that he was being removed? How long did you give Postmaster General Carlin to remove himself from the offices of the Postmaster General?

   Answer: On Monday morning, January 6, Mr. Carlin was told that the Governors had voted six in favor and two abstaining to terminate his appointment as Postmaster General effective that day and that his successor had been appointed to the position effective January 7.

2. I understand that some members of the Postal Board of Governors are promoting implementation of a sole-source contract for optical scanners. What is the status of this contract? Which members are promoting the contract? Also, please comment on whether Mr. Carlin's resistence to the Board members' recommendations for a sole-source contract was a factor in his dismissal.

   Answer: The contracting issue to which you refer had absolutely no bearing on the decision to replace Mr. Carlin. The background on that issue is as follows: The Board's Technology and Development Committee expressed concern that a long delay in procuring and deploying new optical scanners would deprive the Postal Service of an estimated $1.6 million per day savings. For that reason, the Committee asked management to consider sole source contracts to speed up deployment. Management decided instead to proceed with a competitive fly-off and the full Board repeatedly affirmed its support for the course management was pursuing. The two companies competing for the contract will deliver their pilot machines this summer and following extensive testing by the Postal Service management will determine the winner for the contract award. The Board's involvement is only to approve funding for the procurement after the winning manufacturer has been named.

3. Do the governors lack confidence or mistrust Headquarters' management and is this why the governors have hired:

   (1) A lawyer - Mr. Joseph Califano

   (2) A labor relations specialist - Mr. William Olson

   (3) A public relations expert - Ms. Edie Fraser

   (4) A management consultant - Mr. John Garrity?

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Answer:
(1) In June 1980, the Board members considered it vital to have independent analysis and advice from outside counsel to ensure that they play the role Congress intended for them, and not a mere rubber stamp for decisions by postal management. Mr. Califano was hired at that time. Succeeding Board members over the years have concurred with the 1980 position, not as a sign of lack of confidence in management, but rather to ensure an independent, objective view as the members decided policy actions.

(2) The Governors do not serve full time and the Chairman of the Employee Responsibilities and Labor Relations Committee expressed a need for independent counsel with an expertise to assist him in meeting his responsibilities regarding matters relating to collective bargaining.

(3) The Board obtained the services of an outside public relations firm, Miner & Fraser, on a one-shot basis to assist in the transition to a new Postmaster General in January 1986. The reason for going outside was to ensure security against premature disclosure during the period leading up to the changeover of Postmaster General.

(4) Postmaster General Casey hired a consultant with special expertise in management organization to assist him in reorganizing and streamlining the management structure of the Postal Service.

4. Who prepared the press release announcing the removal of Mr. Carlin -- Edie Fraser or USPS' Public Communications Department? If Fraser, why?

Answer: The firm of Miner & Fraser prepared the appropriate press releases because of the Board's concerns with premature disclosure.

5. Are there other consultants hired by the Board? Who are they? Why were they hired? How much is each consultant paid?

The Board had one other consultant, MSL International Management Consultants, hired in December 1985, to assist in the search for a Postmaster General. That firm recommended Mr. Albert V. Casey. MSL was paid a fee of $28,733 plus $4,835 expenses. (The Board's relationship with MSL was terminated as of March 4, 1986. A new consultant to assist in the search for Mr. Casey's successor has not yet been named.)

6. Is there any limit on the expenses the governors can incur for consultants, travel, operating expenses or anything else?

Answer: Governors are authorized to have staff support, as they require, but at a cost not to exceed $600 per month. Governors generally do not have support. In May 1982, the Board approved the policy that the Chairman's employer or firm could be reimbursed up to 25% of the cost for salary and benefits of his or her secretary to compensate for the secretary's time on Board related business. Governors are reimbursed travel and per diem expenses on an actual cost basis. Governors are not authorized to hire consultants without Board approval.

7. Please provide this Committee with a complete breakdown of expenses for consultants and employees detailed to the governors for the last 3 fiscal years. Please provide in detail what expenses for the governors will be for the balance of FY 1986, and what you estimate they will be in FY 1987.

Answer: Up to April 1983 the General Counsel of the Postal Service served as Secretary for the Board of Governors and there was no one assigned or detailed to the Board. In April 1983 the Office of the Governors was established and a full-time Secretary for the Board was appointed. Expenses for legal counsel, consultants and Board employees for the last three fiscal years are as follows:

	1983	1984	1985
Staff salaries and benefits	$ 45,000	$120,000	$125,000
Counsel	$427,000	$613,000	$702,000
Consultants	0	$ 6,000	0

It is estimated that total expenses, including travel, for FY 1986 and FY 1987 will be $1,400,000 and $1,310,000 respectively.

BOARD OF GOVERNORS
Washington, DC 20260-1000

This contract between the Board of Governors of the United States Postal Service and the firm of Smiley, Olson, Gilman & Pangia is effective April 2, 1985. The parties mutually agree as follows:

Mr. William J. Olson will serve as special counsel to the Board of Governors of the United States Postal Service, and he and the firm will provide legal and counselling services to the Board with respect to labor and employee relations matters as the Board may request. The counselling services to be provided will include, when requested, attendance at meetings of the Board and Committees of the Board, as well as written or oral (as requested) advice and counsel concerning proposed actions of the Board.

The firm will be compensated for these services at the regular and customary billing rates of the firm not to exceed the following:

All partners and counsel	$125 per hour
All associates	$ 90 per hour
All law clerks, paralegals and legal assistants	$ 45 per hour

Such payment for services will not exceed $25,000* in any calendar year unless a greater amount has been previously authorized by the Board of Governors.

[* The Board has since increased this amount to $75,000.]

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In addition, the firm will be reimbursed for the actual cost of customary and necessary expenses incident to the services provided. Payment will be made on a monthly basis. Invoices and billings will be submitted to the Secretary of the Board.

This contract will continue until terminated in accordance with this paragraph. It may be terminated by either party upon not less than thirty days' written notice to the other party. Any termination notice will be signed by, or addressed to, the Chairman of the Board of Governors on behalf of the Board.

This contract consists of two (2) pages and certain numbered paragraphs of PS Form 7319-B - U.S. Postal Service Representations and Certifications (2 pages) - as attached hereto, to wit: paragraphs 5, 7, and 10.

John R. McKean, Chairman — for the Board of Governors

William J. Olson — for Smiley, Olson, Gilman & Pangia

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BOARD OF GOVERNORS
Washington, DC 20260-1000

This contract between the Board of Governors of the United States Postal Service and the firm of Dewey, Ballantine, Bushby, Palmer & Wood is effective January 1, 1985. The parties mutually agree as follows:

Mr. Joseph A. Califano, Jr., will serve as Counsel to the Governors of the United States Postal Service, and he and the firm will provide legal and counselling services to the Governors and the Board as they may respectively request. The counselling services to be provided will include attendance at meetings of the Board, the Governors, and - if requested - Committees of the Board, as well as written or oral (as requested) advice and counsel concerning proposed actions and decisions of the Governors and of the Board.

The firm will be compensated for these services at the following rates:

Joseph A. Califano, Jr.	$160 per hour
All other partners	At the regular and customary billing rates of the firm for their services, but in no case to exceed $160 per hour

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All associates	At the regular and customary billing rates of the firm for their services, but in no case to exceed $140 per hour

In addition, the firm will be reimbursed for the actual cost of customary and necessary expenses incident to the services provided. Payment will be made on a monthly basis. Invoices and billings will be submitted to the Secretary of the Board.

This contract will continue until terminated in accordance with this paragraph. It may be terminated by either party upon not less than thirty days' written notice to the other party. Any termination notice will be signed by, or addressed to, the Chairman of the Board of Governors on behalf of the Board.

This contract consists of two (2) pages and certain numbered paragraphs of PS Form 7319-B - U.S. Postal Service Representations and Certifications (2 pages) - as attached hereto, to wit: paragraphs 6, 8, and 11.

John R. McKean, Chairman — for the Board of Governors

Joseph A. Califano, Jr. — for Dew[illegible] Ballantine, Bushby, [illegible] & Wood

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THE POSTMASTER GENERAL
Washington DC 20260-0010

February 4, 1986

Honorable William D. Ford
Chairman, Committee on
Post Office and Civil Service
House of Representatives
Washington, D.C. 20515-6244

Dear Mr. Chairman:

This will respond to your letter of January 31 requesting information about consulting services being rendered by Miner and Fraser Public Affairs, Inc.

The Miner and Fraser firm was retained to assist the Governors of the Postal Service in arranging for an announcement of my appointment as Postmaster General. Because of the special sensitivity of this matter, the Governors concluded that they should use an outside public affairs firm, rather than our internal staff, for this purpose. Miner and Fraser was paid $17,000 for their work on this assignment, which consisted of drafting press releases and biographical materials, preparing press handouts, and making all the arrangements for the press conference at which the appointment was announced. A copy of the purchase order is attached.

In addition, Miner and Fraser is now under contract with the Postal Service to work with our public affairs staff and help develop new communications and market strategies. The services to be provided are specified in the attached agreement. While this agreement contains most of the information you specifically requested, I will also comment on each of your numbered items.

1. As noted, copies of the written agreement and the purchase order are attached.

2. The agreement is supplemented by a more detailed proposal, a copy of which is also attached. The proposal provides a succinct description of the work to be performed.

3. The agreement provides for total compensation not to exceed $19,000 including expenses.

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4. Miner and Fraser is a well known public relations firm that has worked with a number of other government agencies on assignments similar to the one it is now undertaking for the Postal Service.

5. It is my understanding that Miner and Fraser was one of several public relations firms recommended to Chairman McKean and other Governors by William Spartin of MSL International, the search firm working with the Governors on the search for a new Postmaster General. The Chairman presented a proposed contract with the firm to the Board on January 6, 1986. The contract was approved at that time and announced at the public meeting the next day. The contract was subsequently signed for the Postal Service on January 10 by the Deputy Postmaster General.

6. See number 5 above.

7. The contract duration was estimated at 55 manpower days. Work has currently progressed to Sub-Task 10 out of the 13 sub-tasks described in the proposal, and it is expected to be concluded by February 11. We do not intend to extend the duration of the contract or expand the scope of the work beyond the tasks specified in the agreement.

Sincerely,

Albert V. Casey

Attachments */

*/ Retained in official file.

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WILLIAM D. FORD, MICHIGAN, CHAIRMAN

House of Representatives
Committee on Post Office
and Civil Service
Washington, DC 20515

TELEPHONE (202) 225-4054

February 6, 1986

The Honorable Albert V. Casey
Postmaster General
United States Postal Service
475 L'Enfant Plaza, S.W.
Washington, D.C. 20260-0010

Dear Mr. Postmaster General:

During yesterday's hearing I asked you and Chairman McKean to provide this Committee with the Postal Service's assistance, advice, counsel, and recommendations concerning the President's FY 1987 Budget as it would affect the Postal Service, its employees, and its customers.

I write to stress the urgency of my request. As I noted yesterday, pursuant to the requirements of the Gramm-Rudman Act, this Committee must report its views and recommendations to the Committee on the Budget not later than February 25, 1986. Because of this urgency, and because of the gravity of the postal issues raised by the President's budget, I would appreciate your responding to my request as expeditiously as possible.

Please address each of these budget issues: the effect of increasing Postal Service payments to the Civil Service Retirement Fund from 7 percent to 9 percent; the impact on the Postal Service of the President's other civil service retirement "reform" proposals; the impact of the proposed payment by the Postal Service of the full costs arising from postal annuitants' participation in the Federal Employees' Health Benefits Program; and the elimination of the authorization for the entire revenue forgone appropriation (including the President's plan to continue some or all of the affected rate subsidies from general postal revenues).

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I wish to stress again that the Committee needs your assistance, advice, counsel, and recommendations on each of the specific issues and on the overall issue of the budget's impact on the Postal Service, its employees, and its customers. The blanket "deferral" to congressional and presidential judgment which has characterized Postal Service testimony and responses in past years will not suffice in the context of this year's crisis-laden, Gramm-Rudman budget cycle.

On behalf of the Committee, I thank you for your cooperation.

Sincerely,

WILLIAM D. FORD
Chairman

WDF:jcj

cc: The Honorable John R. McKean

THE POSTMASTER GENERAL
Washington DC 20260-0010

February 14, 1986

Dear Mr. Chairman:

We wish to respond to your letter of February 6, 1986, requesting our views on Fiscal Year 1987 budgetary issues involving the Postal Service.

The Postal Service's current budget estimate for Fiscal Year 1987, based on present legal requirements, shows a net operating deficit of $440 million. We are determined to take whatever measures are needed to improve this amount so that the deficit would be reduced to zero. Under the outlay accounting system used in the general federal budget, this improvement would reduce the outlay figure shown for the Postal Service by approximately the same $440 million amount.

The Postal Service will adapt to any additional legislative requirements coming out of the federal budget and appropriations process which affect its financial results. The major question is one of timing. Nationwide service responsibilities and the length of the postal ratemaking process preclude the Postal Service from adjusting its operations abruptly to accommodate very large changes in financial requirements within the government's usual fiscal year budgetary focus. Even though appropriation and budget reconciliation measures may not be completed until immediately before, or sometime after, the fiscal year begins, the Postal Service will still require substantial notice in order to prepare to meet its new responsibilities. In order for the Postal Service properly to discharge its revised obligations, the effective date of major new financial obligations must be set at least two years after enactment and those which would affect postage rates very substantially should be phased in over a period of years.

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We understand that the Postal Service must pull its own weight and not contribute to the general deficit situation which the Administration and the Congress are trying to resolve. We are certain that you appreciate that. This does not mean that expenses which the general treasury cannot afford should simply be shifted to the postal ratepayer. The Postal Service bears the responsibility to manage its operations so as to keep its prices as moderate as possible. Furthermore, the Postal Service and postal ratepayers should not be expected to assume more than the cost of the services being provided.

With these general observations as prologue, the following comments address each of the specific proposals mentioned in your letter in turn.

1. "The effect of increasing Postal Service payments to the Civil Service Retirement Fund from 7 percent to 9 percent; the impact on the Postal Service of the President's other civil service retirement 'reform' proposals".

The President's budget submission proposes to revise the Civil Service Retirement program to restrain benefit costs and increase employee and employer contributions by two percent each. Concurrently, it proposes to move toward charging the Postal Service (and the District of Columbia's off-budget account but no others) the "full cost" of employee pensions less employee contributions, starting at two percent above the standard employer contribution and increasing by an additional two percent each year. For Fiscal Year 1987 these proposals would increase the retirement contribution required of government employers including the Postal Service from the present seven percent to nine percent. For the Postal Service there would be an additional two percent charge toward meeting "full cost", bringing its total required contribution to eleven percent. The estimated additional cost to the Postal Service for FY 1987 is $434 million.

Currently pending before the Congress is legislation to establish a new retirement program for employees hired after 1983 and to require the Postal Service to "fully fund" the cost of this system for postal employees. The estimated cost to comply with this legislation for FY 1987 is an additional $300 million to $400 million, depending on how differences between Senate and House versions are resolved.

The Postal Service supports efforts by the Administration and the Congress to restrain the cost of federal pensions. Most Postal Service employees are very well paid in comparison to private sector employees. Pensions more generous and costly than are provided for comparable work in the private sector are not warranted for postal employees.

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The Civil Service Retirement program is not a fully funded system and would not become one under these proposals. We are troubled by the implications of charging the Postal Service and its employees as if postal employee pensions were fully funded when in fact those payments are merged into the general system so that postal pensions will be payable by a system which continues not to be fully funded. In addition, we are concerned that the Postal Service will not be afforded due process in the determination of the huge amounts to be paid. At a minimum, we believe the Postal Service should have access to the courts or an equally impartial arbiter to resolve any questions which may arise about the amounts which it is asked to pay.

2. "The impact of the proposed payment by the Postal Service of the full costs arising from postal annuitants' participation in the Federal Employees' Health Benefits Program."

The budget proposal calls for the Postal Service and postal ratepayers to assume the cost of health benefit premiums for postal annuitants. Applied to all postal annuitants including those already retired, this proposal would add an estimated $343 million to our costs for Fiscal Year 1987.

The Postal Service has no objection to assuming responsibility for the future annuitant health benefit premiums of its present employees. We do not believe that such premiums for annuitants who retired from the former Post Office Department can properly be considered a cost of postal services now provided which should be charged to present ratepayers. Unfunded liabilities attributable to the operations of the Post Office Department have remained the responsibility of the United States.

Moreover, we believe that any change should be entirely prospective so that postal ratepayers will not be charged for premiums payable for annuitants who have already retired since the establishment of the Postal Service. Under current law ratepayers were not to be charged for these costs because the Postal Service was permitted no control over them. The President's proposal looks beyond the control factor to view taxpayer funding of these premiums as indirect subsidies to postal operations. If this view is accepted, in the case of premiums for employees who have already retired what the taxpayers are subsidizing are the postal services which these employees helped to provide while they were still working. The Postal Service faces a challenging but appropriate assignment to manage its operations in the period ahead so that its services pay for themselves. To add to that load

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through a change in the rules with respect to the funding consequences of past operations would subject postal ratepayers to a double burden, to pay more than what it costs to provide their present services.

Perhaps because the President's budget recommended approval of the related appropriation, your letter did not specifically mention the matter of the workers' compensation payment due the Department of Labor in Fiscal Year 1987 on account of injuries suffered before postal reorganization by employees of the Post Office Department. We deal with the matter here because the appropriation was not provided for Fiscal Year 1986 and because some in Congress have proposed that the Postal Service should assume this liability. Current law makes these, like other liabilities attributable to postal operations before the 1971 reorganization, liabilities of the United States and not the Postal Service. If the laws were changed to reverse this responsibility, the cost to the Postal Service for Fiscal Year 1987 would be $40,049,000. Each year the Postal Service books as an expense for rate purposes the full increment to its estimated long-term workers' compensation liability which is likely to be incurred as a result of providing service during the year. Postal ratepayers should not be saddled with the additional responsibility to offset the effects of deficit operations before postal reorganization.

3. "The elimination of the authorization for the entire revenue forgone appropriation (including the President's plan to continue some or all of the affected rate subsidies from general postal revenues)."

The President's budget submission proposes to terminate revenue forgone appropriations to the Postal Service but to require the Postal Service to provide certain preferred-rate subsidies. The net effect of this proposal for Fiscal Year 1987 under the Postal Service's accrual accounting system is estimated at a negative $717 million.

We in the Postal Service do not enjoy any official expertise or perspective, beyond the personal feelings which any citizen might have, to enable us to advise the Congress whether current subsidies for particular postage rates should be eliminated or continued. The issues involved are necessarily social and political.

We do have concerns about separating the responsibility for determining what is subsidized from the responsibility to pay for the subsidies, by funding these subsidies from general postal revenues. The Postal Service is required to serve the

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entire Nation at fair and reasonable rates. Mailers normally must pay their fair share of postage for the services they receive. Current law enables the Congress to assume responsibility for a share of the postage which favored categories of mail would otherwise pay by providing appropriations to cover it. The mailers who are already paying the entirety of their own share should not be expected to shoulder an additional responsibility for part of the postage properly belonging to other mailers if the Congress decides it can no longer afford to fund the subsidies.

In overview, the financial consequences of each of the foregoing items would be substantial for an organization which already needs to realize a $440 million improvement in its projected financial results for Fiscal Year 1987, as we are determined to do. The Postal Service has planned to try to postpone the need for the next general rate adjustment as long as possible. Additional responsibilities of the magnitude of any of the major items mentioned would adversely affect our forecasted cash position so that the next rate filing would need to be advanced. If several of these proposals were approved in their present form, the cumulative effects just in Fiscal Year 1987 could be so large that the Postal Service would be unable to avoid filing for new rates as soon as possible.

In providing our comments to you on these matters, we find it necessary to address a related area which in some ways touches each of the items discussed above. We believe that the recent decision to try to begin dealing with Postal Service financial results "on budget" under standard government outlay accounting both incorrectly portrays the Postal Service's financial picture and undermines the overall efforts to address the federal budget deficit problem. Outlay budgeting provides a distorted, artificial view of our financial situation because it fails to reflect that the Postal Service is funded on the basis of accrual accounting and must break even from its own revenues over a period of years. This artificial recasting of our internal budget affects the rest of the government because the outlays which it shows for the Postal Service influence the achievement of outlay targets for the government as a whole. In addition, to the extent the general effort to reduce the federal deficit counts any of the progress which we expect to make within the Postal Service toward overall outlay targets, that reliance will prove misplaced as our rates adjust themselves to pass along the benefit of internal savings to the postal ratepayers.

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The Postal Service already has a balanced budget responsibility in the form of the break-even requirement in the Postal Reorganization Act and cannot wait until 1991 to meet it. Progress by the government toward its deficit reduction targets can be affected by proposals which would place additional charges on the Postal Service, but the break-even requirement will assure that the Postal Service meets its responsibilities without the need to include postal financial results in altered outlay form within the general deficit-reduction process. A change which would place the Postal Service Fund account back off budget where we believe it belongs would have the effect in Fiscal Year 1987 of enabling the general federal budget to realize immediately the benefit of any additional charges which the Postal Service may be required to pay. Under the present on-budget treatment, outlay savings from such changes in funding requirements would not be recognized until the Postal Service could start bringing its outlays and revenues back into balance.

We appreciate your invitation to assist the Committee in its consideration of these matters and will be pleased to provide whatever help we can as the process moves forward.

Sincerely,

Albert V. Casey

Honorable William D. Ford
Chairman, Committee on Post Office
and Civil Service
House of Representatives
Washington, D.C. 20515-0001

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THE POSTMASTER GENERAL
Washington, DC 20260-0010

March 7, 1986

Honorable Frank McCloskey
Chairman, Subcommittee on Postal
Personnel and Modernization
Committee on Post Office
and Civil Service
House of Representatives
Washington, D.C. 20515-6250

Dear Congressman McCloskey:

This is in reference to your February 20 letter transmitting for my response two questions relating to the Postal Service's rural mail delivery density requirement. Identical questions were forwarded also to Postal Service Board of Governors Chairman John R. McKean for his reply. Chairman McKean has asked that the following information also serve as his response to your request. I understand that this information will be made part of the record of the February 5 joint hearing of the Subcommittee on Postal Personnel and Modernization and the Subcommittee on Postal Operations and Services.

Question 1: Currently, the rural mail delivery density requirement is one family per mile (156.21 DMM). In the event that this ratio were raised, for example, to five families per mile, what would the implications be on both rural delivery and rural letter carrier employment? Would the amount or frequency of rural delivery decline? Would a subsequent need to close additional rural post offices occur? Do rural letter carriers currently maintain employment placement rights or other contractual rights if a mail density increase occurred?

Answer: Raising the families per mile delivery density requirement would have no immediate impact on rural delivery service unless the regulation was applied to current rural delivery customers. If applied to current customers, delivery to a rural

mail box located at the end of a customer's driveway or street would be discontinued in those areas affected by the change. All current rural customers would still be eligible to receive rural mail service by locating their boxes along the carrier's line of travel in areas where the required delivery density was met.

The Postal Service does not believe that the number of rural deliveries would decline as a result of a change in the density per mile requirement regulations. However, if a decline in the number of deliveries did occur, the resultant impact on rural letter carrier employment would depend, in large part, on the particular office involved and the overall impact within that delivery area. One possibility is that the reduction in deliveries could result in a realignment of existing routes and a subsequent adjustment to those routes. Conceivably, the only impact on carriers would be that their particular route is no longer evaluated at the same number of hours. In this case, there would be no excessing of rural carriers.

A second possibility is the consolidation or elimination of rural routes in a given office. In this case, a number of contractual provisions come into play. The first provision is article 6 of the USPS-NRLCA National Agreement which provides "that no employees employed in the regular work force will be laid off on an involuntary basis during this Agreement." Any reduction in the number of rural letter carriers at a particular installation must be performed through reassignment. Article 12 of the Agreement has specific provisions addressing the reassignment of rural letter carriers. This article also specifies the rules governing the affected employee's seniority and retreat rights. Because of the specific provisions in the rural letter carrier labor agreement, a change to the density requirement may result in dislocation or reassignment of a rural letter carrier, but will not result in loss of employment. This would also be the case if a regulation change was applicable only to new delivery growth and not to current rural delivery customers. The present number of rural routes and employees would be maintained. There would be no reduction in the amount or frequency of rural delivery routes. Rural

route mileage growth would be at a slower rate and those customers who currently do not have rural delivery service would be less likely to qualify for such service in the near future. Significant closings of rural post offices would be unlikely as an increase in the families per mile density required to receive rural delivery service would probably have the affect of increasing the role of small rural post offices and expanding the need for these types of operations.

Question 2: Does the Postal Service currently have any intentions to change the mail density requirement? When did the Postal Service last change the mail density ratio?

Answer: The Postal Service has no plans to change the families per mile rural mail delivery density requirement at this time. The current families per mile density requirement has been in effect since February 7, 1975.

I hope this information is helpful to you. If you need any further assistance, please contact my office or William T. Johnstone, Assistant Postmaster General, Government Relations Department on 268-3731.

Sincerely,

Albert V. Casey

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THE POSTMASTER GENERAL
Washington, DC 20260-0010

February 24, 1986

Honorable Frank McCloskey
Chairman, Subcommittee on Postal
Personnel and Modernization
Committee on Post Office
and Civil Service
House of Representatives
Washington, D.C. 20515-6250

Dear Congressman McCloskey:

This is in response to your February 7 letter transmitting for my response several questions for the record of the February 5 joint hearing of the Subcommittee on Postal Personnel and Modernization and the Subcommittee on Postal Operations and Services.

Enclosed are my answers to the questions posed. If you need any additional information, please contact my office or William T. Johnstone, Assistant Postmaster General, Government Relations Department on 268-3731.

Sincerely,

Albert V. Casey

Enclosure

cc: Honorable William D. Ford
Honorable Mickey Leland

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FORD QUESTIONS FOR MR. CASEY

1. Mr. Casey, we understand that you feel you must leave the Postal Service later this year in order to assume your teaching duties at Southern Methodist University.

   a. Under what circumstances would you consider staying on for perhaps another year as Postmaster General?

      I would consider staying on if I felt I had not accomplished what I set out to accomplish. My principal commitment to the Governors is to remain as Postmaster General until such time as my successor has been determined and brought on board. During this period I will examine the existing organizational structure, test the competence of those reporting directly to me as well as the competence of the people reporting directly to those individuals, and make whatever changes I believe are necessary to operate most efficiently with the most capable management. If my successor has not been identified, and if the desired changes have not been accomplished within the 6-9 month time frame I initially envisioned, I would consider forgoing my commitment to join the faculty at Southern Methodist University later this year.

   b. Would you accept an appointment to the Board of Governors so that you could continue to serve the Postal Service after you leave as Postmaster General?

      No. When my term as Postmaster General expires I expect to be quite active in my new position at Southern Methodist University. Also I have some question, yet unresolved in my own mind, as to whether a former Postmaster General, or any former postal employee for that matter, should serve on the Board immediately following his or her employment with the Postal Service.

2. Leaving politics and existing provisions of law aside for the moment, what are your views as an executive on the following three postal policy issues. In your judgment, should present policy in any of these areas be altered or abolished?

a. The requirement of universal service and a uniform first-class postage rate;

I believe that the current structure of universal postal service at a uniform rate has worked well and is in the best interest of the American public. I see no reason to tinker with that structure. However, the real question is what does the American public desire in a mail delivery system. If the answer is a continuation of the current structure of universal service at a uniform rate, then it is clear to me that the Postal Service monopoly on letter mail must be preserved in order to provide the solid revenue base on which to offer universal service. If the answer is some different mail delivery system and a weakening or repeal of the monopoly is viewed as desireable, then I believe all of the service and regulatory restrictions on the Postal Service should be repealed, and the Postal Service should be allowed to compete in the market place on an equal footing. I personally feel that this latter course, if taken imprudently, could produce chaos and a diminished level of service to the American public.

b. Six-day nationwide mail delivery;

In Fiscal Year 1985, the Postal Service handled 140 billion pieces of mail. We expect to handle over 148 billion pieces in the current Fiscal Year. In view of this, I don't see how this volume could be handled with less than six full delivery days. We need that extra day and I have no plans to eliminate a delivery day.

c. The elimination of some 7,000 small rural and suburban post offices.

I see no reason to change our current policy relative to closing small post offices. The Postal Service views each individual office as an integral component of its universal delivery system and evaluates the contribution of each office in the context of its value to the total system. The revenues taken in by an office -- the measure used by many to judge the

worth of that office -- are not an accurate indicator of the value of that office to the postal delivery system. From time to time, we will close a post office for operational concerns when an equivalent or improved level of service can be provided to customers served by that office by alternate means. We will continue to make these decisions on a case-by-case basis and I have no plans to engage in wholesale closing of small post offices.

3. You have served on numerous Boards of Directors, and you have worked for Boards of Directors. In your view, what should be the proper balance of authority between the Postal Service Board of Governors and the Postmaster General? Specifically, do you feel that the present Governors' role in running the day-to-day operation of the Postal Service is too strong, too weak, or just right?

The proper balance of authority between the Board of Governors and the Postmaster General is that envisioned by the Postal Reorganization Act. The Board should direct and control the expenditures of the Postal Service and review its policies and practices. The Board should not be involved in the day-to-day operations of the Postal Service, but should provide guidance on broad questions of Postal policy and goals to its chosen Chief Executive Officer - the Postmaster General. The Postmaster General should manage the nations' Postal system on a day-to-day basis. That is what he is hired to do, and if he fails to meet that task in a manner consistent with the Board's guidelines and his responsibilities to the users of the mails, he should be removed. This relationship parallels my experiences in the private sector with Boards of Directors.

I believe the Postal Service Governors and I are in agreement on this perception of the proper relationship between the Board and the Postmaster General, and, as Chairman McKean pointed out at his January 6 news conference announcing my selection, I would expect to see some Board "disinvolvement" in areas properly reserved to Postal management.

FORD QUESTIONS FOR MR. McKEAN AND MR. CASEY

1. Mr. Casey will only be with us, apparently, for six months. I have doubts about what can be accomplished in so short a span. Mr. Casey took office on January 6. Specifically, please tell us how the Postal Service of July 6, 1986 will differ from the Postal Service of January 6, 1986.

I am hesitant to focus on the July 6 date, or any other specific date, as the best time to assess my accomplishments as Postmaster General. I believe the Postal Service, to stay a viable organization in today's competitive environment, must ensure its' ability to make available to the Nation an efficient, reliable mail delivery service at an affordable cost. In order to meet that general service goal and hold its costs to the lowest practical level, the Service must undergo continual examination. This is the process which I have initiated and when this process is completed and I have analyzed the information requested, I will make the decisions I believe necessary to ensure that the American public's mailing needs are well served by a strong, financially sound and effectively managed Postal system. While it would be premature to state with any specificity exactly what these decisions will be, I do believe that when my tenure as Postmaster General is completed, I will leave my successor a Postal Service with a leaner, more efficient management structure and a greater orientation toward the existing and future needs of its customers in the various markets in which it operates.

2. The Heritage Foundation has just issued its postal policy recommendations for the coming year. There are four basic recommendations:

a. Eliminate the subsidy of nonprofit and other "preferred" rates;

b. Require the Postal Service to pay the full costs of its participation in the civil service retirement program;

c. Require the Postal Service to pay the full costs of postal retirees' participation in the Federal employee health benefits program; and

d. Privatize the Postal Service, beginning with contracting-out to the private sector all rural activity, followed by contracting-out or "franchising" city delivery service, and, finally, repealing the Private Express Statutes.

Would you comment on each of the Heritage Foundation recommendations?

I have recently responded by letter to Chairman Ford on the first three issues cited above. A copy of my February 14 letter is attached and I ask that it be made a part of the official hearing record.

On the question of "Privatization" of the Postal Service, I have reviewed the recommendations of the Heritage Foundation and other groups advocating this course of action, and, as a general comment, I have noticed that they seem to rely on outdated information and offer little supporting evidence for many of these conclusions.

Under the concept of privatization, as I understand it, individual postal services would be provided by private firms who would bid on those services, such as rural delivery, which they believed could be performed at a profit. The Postal Service would be relegated to the status of a contractor orgarization which would continue to provide only those services which no other group believed would be profitable. This concept of "privatization" is a retreat from the successes achieved by the Postal Service over recent years, would put a heavy strain on taxpayers and postal ratepayers who would be required to subsidize those unprofitable services left to the Postal Service, and would Balkanize the unique universal postal delivery network. Far more informed study is necessary before "privatization" of the Postal Service receives any serious consideration. However, the Postal Service is aware that it cannot afford to discount any opportunity to improve its services and keep its costs under control. If there are opportunities to contract for certain services now

performed internally which either improve service or reduce costs while maintaining the integrity of our universal postal system, we should pursue them.

I do not agree with the recommendation that the Private Express Statutes should be repealed. Those who urge such repeal evince a lack of understanding that the Postal monopoly laws do not stand on their own. They are an integral part of a larger legal structure which defines the nature of the postal system we have today. This structure calls for uniform rates and uniform service. As I stated in my response to an earlier question, the Postal monopoly laws provide the solid revenue base which enables the Postal Service to offer universal service. The question of whether we should continue to offer uniform service at a uniform rate can be answered only by the American public through its elected representatives. I personnally feel that the interest of the public is best served by maintaining the Private Express Statutes. This is not to imply that the Postal Service views the Private Express Statutes as a "right". We do not. We are well aware of the fact that operating under the Postal monopoly laws is a "privilege" extended to the Postal Service -- a "privilege" we must earn each and every operating day. We are currently earning that "privilege" and we will continue to do so.

3. On January 24, the Postal Service announced, under the name of Mr. Casey, that changes in several senior executive positions had been implemented -- including the position held by Senior Assistant Postmaster General James V. Jellison. Are you telling us, Mr. Casey, that after fewer than three weeks as Postmaster General you were able to assess all of these people adequately and make sound decisions about their capabilities? Or, as some suggest, is the new Postmaster General merely carrying out the orders from above -- that is, from the Governors?

The recent decisions to remove or transfer some senior management officials at Postal Headquarters were my decisions based on my assessments of the concerned individuals background experience for the positions occupied, their level of expertise, and their management effectiveness. I spent time with

each individual and ultimately concluded that they would not be as capable as I felt necessary to direct the Group or Department for which they were responsible.

4. I have heard that one of the major reasons for Mr. Carlin's downfall -- and perhaps Mr. Jellison's downfall -- was the handling of the "Zip + 4" automation and procurement issue. Please tell us what, in each of your views, was done wrong by previous management and what you propose to do differently from now on.

To date I am not completely conversant with the ins and outs of previous management's handling of the automation issue. The time which I have been able to devote to a review of this program has convinced me that there were some planning problems which led to unforeseen difficulties and some management intransigence at critical points in the program. However, I am convinced at this point that the best approach to take is the approach that is now being aggressively pursued - a truly competitive procurement for both multi-line optical character readers and the software necessary to convert the single-line optical character readers now in use. I am committed to this business strategy and have communicated my support for it to my operating management.

5. I know that the impact of airline deregulation on the Postal Service has been severe. Your transportation costs have skyrocketed and your access to available flights has been greatly diminished. As a former airline chief executive, Mr. Casey, can you tell us what, in your view, can be done in both the short term and long term to solve the problems caused by deregulation? Is buying or leasing its own airplanes a realistic option for the Postal Service? Would you be willing to sit down with the President of the Air Transportation Association, Mr. William F. Bolger, and discuss this?

Buying or leasing aircraft is an interesting option which has been discussed in great detail. It is certainly at the other end of the spectrum from depending on passenger carriers for our transportation service. Because of the complexities of operating owned or leased aircraft, i.e., pilots,

maintenance, etc., we are not actively considering, at this time, the purchase or lease and operation of our own aircraft. We believe the private sector is capable of providing adequate transportation service of this type.

We think that the use of dedicated aircraft, as opposed to buying or leasing aircraft, and the similar use of passenger carriers is a middle ground which can provide us the benefits of both. To use dedicated aircraft as a means of obtaining air transportation service is extremely expensive and can be cost effective only if associated with large volumes (weights). We dispatch mail between some 26,000 unique origins and destinations, yet 80% of our mail flows between 2,800 origin/destination cities. This means that for the vast majority of the cities served we have insufficient volumes of mail to justify dedicated aircraft and thus we remain dependent upon scheduled passenger carriers.

Our solution is to purchase service from scheduled passenger carriers as well as buy service in aircraft dedicated to our exclusive use. We expect that this combination will promote competition and improve stability of service

Finally, I would be most pleased to meet with Mr. Bolger to discuss this matter and to exchange viewpoints.

6. You both are convinced that the Postal Service, to survive, must keep its prices reasonable and that the key to success is cost control and better utilization of personnel. Isn't it fair to ask the Governors to start by looking at their own costs? What is the budget for the Board of Governors this year? Please tell us, item by item, how much the Board of Governors is costing the ratepayers and taxpayers this year including salaries, expenses, staff, consultants, contractors, and law firms.

The Board is conscious of its expenses and does not consider itself immune from efforts to cut costs and achieve greater efficiencies. The Board's FY 1986 budget, approved by the Board at the October 1, 1985, open meeting, is for $1.2 million. The costs of the Board, as well as all postal expenses, are paid from operating revenue. The FY 1986 costs are estimated to be:

Salaries and benefits	$305,000
Travel	190,000
Supplies and Services	675,000
Printing	10,000
Miscellaneous	20,000
Total	$1,200,000

Included in "Services" above is $650,000 for outside legal counsel. There are no funds provided for the use of consultants. In addition to the above there is about $200,000 in costs incurred in connection with both the appointment of a new Postmaster General in January 1986 and the addition of Mr. Paul Carlin to the staff of the Board of Governors as Special Assistant to the Board of Governors.

7. In the opinion of your attorneys, does the Gramm-Rudman Act apply to the Postal Service? If so, how? If not, why?

Sequester orders under the Gramm-Rudman-Hollings Act apply to the revenue forgone appropriation to the Postal Service. Such orders do not, in our view, apply to the Postal Service Fund account. This conclusion is based on the provisions of the Postal Reorganization Act, which are intended as a complete and coherent statement of the laws governing the Postal Service Fund, and which provide specifically that no other laws concerning federal budgets or funds apply except as specifically provided in title 39, United States Code (39 U.S.C. 410(a)). Consistent with these provisions, section 255(g)(1) of the Balanced Budget and Emergency Deficit Control Act of 1985 specifically recognizes the exemption of the Postal Service fund from any sequester order, and the provision dealing with administrative expenses, section 256(b)(2), apparently recognizes that some self-supporting accounts are specifically exempt. We have also noted that inclusion of amounts from the Postal Service Fund under such an order would tend to impair achievement of the deficit reduction schedule established by the Act, because savings claimed from that Fund toward the annual targets set by the Act will tend to evaporate, forcing larger savings from other accounts later on, as the internal savings achieved by the Postal Service are passed to the postal ratepayers through lower revenue requirements in future rate cases.

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MCCLOSKEY QUESTIONS FOR MR. CASEY

1. **In your prepared statement, you emphasized four areas which you feel should be addressed in order to make the Postal Service more progressive -- better performance, financial stability, employment opportunities, and a safer and healthier work environment.**

   Could you be more specific about your plans to achieve these goals during your brief tenure?

   I am quite confident that the approach which served me well in a service industry in a highly competitive marketplace will translate into success in all of the areas mentioned in my prepared statement. My efforts will focus on providing first rate service to our customers at affordable and stable postage rates. This will necessarily involve the sort of service consciousness and cost-cutting attention which the Board of Governors and operating management have been pursuing over the last year. I plan to continue this productive effort. I am also interested in seeing that postal employees get the chance to exhibit their skills and abilities, in part to ensure that customers get the service that they pay for, in part to ensure that postal employees feel that their jobs are rewarding. Finally, with respect to safety, it is important to me that a national, visible organization such as the Postal Service set an example for the rest of the economy. A safe work environment eliminates injuries or illness, increases productivity, and saves money.

2. Mr. Casey, you recently fired -- which I presume is just the first round of personnel changes -- several top management people with specific knowledge of technical postal operations.

   a. Was the initial recommendation made by you, Mr. McKean, another member of the Board, or a special advisor?

      These officers serve at the pleasure of the Postmaster General and the decision to remove or transfer them was made by me based on my assessment of each individual concerned, not on the recommendation of others.

b. What specifically led to the decision that these individuals should not continue in their positions?

Based on my discussions with each individual, I decided they were not the best persons to direct the functions or programs for which they then bore responsibility. In some cases, it was just a mismatch of expertise to position occupied, in others it was evident that necessary experience and managerial skill was lacking.

c. What evaluation was made to arrive at these decisions?

As stated earlier, the decisions were based on my evaluation of the skills and abilities of these individuals following discussions with each of them.

d. What so-called "special" assignments are being planned for these individuals?

James V. Jellison, former Senior Assistant Postmaster General for Operations, and Karen T. Uemoto, former Assistant Postmaster General for Rates and Classification, are currently assisting a Postal Headquarters Task Force charged with identifying major opportunities for the Postal Service to enhance its service offerings and finances. William R. Cummings, Senior Assistant Postmaster General for Finance will continue to serve in that capacity until a suitable new assignment is determined. Mary Layton, Assistant Postmaster General, Public and Employee Communications Department will also serve until a successor is brought on board.

3. Why do you believe that outside managers, with no postal experience, can run the operation more effectively than people from the inside? What other personnel changes are being anticipated?

I have not expressed a preference for managers with no postal experience. I am looking for capable business managers, whether from the private sector, from within the Postal Service, or from elsewhere in the Federal Government. My choices will be based upon capabilities, not upon where those capabilities may have been exhibited. At this point in my review of postal organization and management I cannot tell you what changes might be in the offing.

4. Mr. Casey, under the leadership of your predecessor, a plan was initiated to reorganize Postal Service headquarters with a aim toward restructuring management levels. Please summarize this plan and give us your views of the reorganizational plan initiated by Mr. Carlin? Do you and your new management team intend to continue the reorganization at headquarters along the same lines as those set up by the former Postmaster General. If not, what are your goals?

   The realignment plan, initiated by Mr. Carlin, was designed to trim staff functions and eliminate layers of management when possible. Since responsibility for development of the plan was delegated to functional units no significant change in functions or roles occurred across department lines. Implementation of that headquarters plan is continuing.

5. How many people will be affected by the reorganization? What portion of the overall postal workforce does the headquarters segment represent? (presumably, it's a small portion) - Why are you placing such an emphasis on this very small segment of the workforce? Do you really expect the headquarters realignment to result in significant personnel savings for the Postal Service?

   The change in authorized complement due to the realignment is a reduction of 18% in Headquarters and four associated units. It constituted a 9% reduction from January 1985 on-rolls complement. Headquarters newly authorized staffing is 2,122.

6. Mr. Casey, will there be a continued emphasis on the employee involvement -- quality of worklife (EI/QWL) program?

   In my prior private sector business experience, I was a strong supporter of the "Quality Circle" concept. I have seen nothing in the nature of Postal Employment which would make that approach inappropriate. I honestly believe that the Employee Involvement/Quality of Worklife will inure to the benefit of both Postal Customers and Postal Employees. I have assured all Postal employees through a Postal Bulletin message that I join with senior management in continuing the Postal Service's commitment to the philosophy of EI/QWL.

7. Will you or the Board of Governors attempt to "reopen" the contract talks before the summer of 1987, the next scheduled negotiation?

At the present time, there are no plans to reopen labor contract talks prior to the start of the negotiating period in 1987. The next round of negotiations will begin on or about April 20, 1987.

a. What preparations are being made for the labor negotiations?

Since the effective dates of the existing labor agreements in December 1984 and January 1985, we have been preparing for the next round of negotiations. At present, the preparations consist of the collection and analysis of internal and external economic and noneconomic data likely to be of importance in the 1987-1988 national negotiations.

b. Are you planning to use the services of outside counsel?

We do plan to use the services of outside counsel for the 1987-1988 negotiations. However, such counsel has not yet been selected.

8. At last year's oversight hearings, I expressed my concern over the excessive overtime costs the Postal Service was experiencing. In the months following those hearings, Mr. Carlin managed to bring those costs into line.

a. What are your plans for hiring and training people to supplement the Postal Service workforce so that service remains at its peak?

The Postal Service intends to hire and train people to the extent that it is necessary, not only to maintain service at its current level, but also to continually strive to improve all facets of our service to our customer. However, we feel that at least for the foreseeable future, we have an adequate employee complement to meet our service obligation. Our main thrust at this time will be to insure that these newer workers are adequately trained to bring them up to their full potential.

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b. How do you plan to maintain the equilibrium between labor costs and top quality service?

The Postal Service intends to utilize the lower starting salaries that were negotiated in the last contract to bring new employees on board when it is determined that is necessary. In addition, we intend to use casual employees to the extent that it makes good business sense and the utilization of this type of employee is within the parameters of our contractual obligations. While these actions address the control of costs, it is also the Postal Service's intent to continue as our number one objective our goals of the best quality service.

9. A few days after your appointment, one of the Dallas papers ran a story with the headline "Casey's postal appointment spurs interest in REI stock." The article went on to say that on the day after the announcement, the volume of trading in REI's stock was 6 times the average over the previous ten weeks, and the stock closed up 3/4. The next day, volume was 3 times the average, and the stock closed up 1/2. This was on a day when the Dow Jones Industrial Average fell 39.1 points. Naturally, a story like that would further tend to discourage bidders who were competing against REI.

a. What is your relationship with Recognition Equipment, Inc. and it's officers and Board of Directors?

I know some of the present management of Recognition Equipment, Inc. as well as some individuals currently serving on that company's Board of Directors. In general, my relationship with these individuals is on a social basis, although I did have a prior professional relationship with one current Board member.

b. Mr. Casey, have you ever acted as a consultant to REI. If so, please provide the Committee with the dates and how much you were paid for your services.

No.

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10. As the new Postmaster General, how do you intend to encourage renewed interest among venders -- REI competitors specifically, as well as the vendor community in general?

I will be looking hard at the USPS procurement process with a view to ensuring that all procurements are conducted in the public interest. I intend to help control costs, assure vendor interest, and prevent overruns and belated changes of direction by insisting on thorough procurement planning. I will try to see that our procurement efforts are strategically sound and cost effective, and that our solicitations include conceptually complete, producible, and clearly expressed requirements, allow reasonable production and delivery schedules, provide acceptable vendor-risk levels, and set forth sensible criteria for vendor selection.

It would be inappropriate for me to discuss a specific vendor and its competitors who are competing to fulfill a current USPS requirement.

11. (Note: There was not a question numbered 11 in the material transmitted to the Postal Service for response)

12. Another Dallas paper -- the Dallas Morning News -- ran a story which began with the following statement: "A bitter feud between two Dallas-area high-technology companies helped provoke Monday's ouster of Carlin and the appointment of Casey." The two firms named in the article were Recognition Equipment, Inc. and ElectroCom Automation, Inc. Was an REI-ElectroCom "feud" one of the factors in Mr. Carlin's ouster? Even if it was not please explain the circumstances, and the way in which your position would differ from that of Mr. Carlin?

I am not able to tell you whether a "feud" concerning a competitive procurement exists, and, if so, if this "feud" was involved in the Governor's decision to replace the Postmaster General. However, I can say that I will ensure that the selection of the successful competitor for the Postal Service's mail processing equipment requirements will be based solely on the quality of the equipment and its ability to meet the needs of the Service. Whether we're talking about the public or private sector of the economy, competition is still the hallmark of success.

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LELAND QUESTIONS FOR POSTMASTER GENERAL CASEY

1. **Can you tell us, specifically, what instructions you received from the Board when accepting the position of Postmaster General?**

   I did not receive any specific instructions from the Governors. Based on a series of discussions, the Governors and I reached an understanding of what was desired of a new Postmaster General, and I agreed to accept the position based on that understanding. My foremost task is to arrange for my successor and I will play an active role in making a recommendation along these lines to the Governors. I was aware of the perception of the Governors that the management levels of the Postal Service needed to be trimmed. I agreed to examine the organizational structure, determine if, and where, cutbacks in the management levels could be made, and to devise and implement a plan to accomplish that result. I am also aware of the Governor's concern with the ability of the Postal Service to compete in the various markets in which it does business. I will be looking at these "markets" and the effectiveness of the Postal Service in each of them, as well as exploring other areas in which the Postal Service could be offering services to meet the needs of the American mailing public.

2. **When you accepted the position of Postmaster General, what was it that you felt you could contribute in such a short period of time?**

   I believe that my thirty-five-plus year business career in three major corporations will enable me to be a strong Postmaster General who can bring vast experience to bear on the business of providing the nation with essential postal services.

3. **Have your expectations changed now that you have been in the position for just over one month?**

   No.

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4. **You have made several major changes in top management. Can you tell us what those changes were, the names of the persons involved, and exactly why each change was made?**

James Jellison, Senior Assistant Postmaster General for Operations, and Karen Uemoto, Assistant Postmaster General, Rates and Classification Department were removed from their respective positions. Michael Coughlin, former Senior Assistant Postmaster General, Employee and Labor Relation Group has replaced Mr Jellison and Steve Miller, former Assistant Postmaster General, Department of The Controller has replaced Ms. Uemoto. William Cummings, Senior Assistant Postmaster General, Finance Group and Mary Layton, Assistant Postmaster General, Public and Employee Communications Department are continuing in their present roles until their successors are named. In the cases of those removed from their positions and those who will soon be leaving their current jobs, I determined that they either lacked the expertise or management skills required to effectively direct their respective functions. In the cases of those transferred to new positions, I made a determination that such a move was in the best interest of the Postal Service.

5. **Please tell us about each of the consultants you have hired and the specific goals you have set for each of them?**

At my direction, the Postal Service has retained the services of John T. Garrity. Mr. Garrity, currently Managing Director of Kendall Associates and a retired Director of McKinsey and Company - the international management consulting firm, is a recognized expert on management subjects with a particular emphasis in the areas of strategic planning, corporate organization, and management information and control. Over the next 4-5 months, the Postal Service will carry out a series of concentrated reviews aimed at identifying major opportunities and initiating programs to enhance its service offerings and its financial position. Mr. Garrity will assist me in organizing and directing these reviews.

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In addition, the Postal Service has retained the firm of Miner and Fraser Public Affairs, Inc., to assist the Service in developing new communications and market strategies. Miner and Fraser is to accomplish the following specific goals:

1. Review public affairs objectives
2. Review communications plans/liaisons; results and measurement systems
3. Provide complete review of media relations
4. Review public opinion and consumer opinion; undertake external interviews for information and review audience identification
5. Assess publications and materials
6. Review speeches, exhibits and supportive process
7. Review training and education
8. Review special events, community relations and special programs
9. Review legislative coordination for communications and intergovernmental
10. Review special campaigns as well as advertising and marketing
11. Review internal communications
12. Relate to how similar activities are carried out in the private and public sector apply results to the Postal Service
13. Provide final reports.

6. **Please tell us why you are using outside personnel for these efforts as opposed to postal service employees?**

My choice to retain outside consultants to assist me in reorganizing and redirecting the Postal Service was motivated by my desire to obtain a fresh perspective on what was required to position the Service for a productive future.

7. **Based on your month of experience with the Postal Service, do you have any preliminary observations as to what the problems are at Postal Headquarters?**

It is premature to comment on what, if any, problems I may see with the Postal Service at this time, and whether those problems exist only at Postal Service headquarters or are evident elsewhere in the nationwide Postal structure. I would prefer to withhold any assessments until the many reviews and

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studies I have initiated are completed. I have observed a high degree of dedication, intelligence and good spirit among the postal employees with whom I have had contacts.

8. **It is widely rumored that one of your objectives is to come in and make major workforce reductions in top level management. Is that true?**

No. What is true is that I have been given free reign to determine what management structure is appropriate for the future success of the Postal Service. I cannot now tell the Committee whether this will involve staff reductions or a reorganization of the Postal Service's Headquarters and support facilities.

9. **On April 8, 1985, Mr. Carlin issued a statement saying that when Senior Executive positions became available, Postal management would seriously consider women and minority candidates to fill the vacancies. Do you plan to abide by this policy?**

I will certainly consider for promotion any postal employee or outside candidate who possesses the requisite qualifications. Mr. Carlin's statement was intended to insure that minority and women candidates received fair consideration for all positions for which they were capable. This policy will continue.

10. **In recent years the Postal Service has had trouble attracting bidders in multi-million dollar procurements. There have been procurement irregularities, last minute cancellations and virtual month-to-month funding of some very large efforts. How do you intend to renew interest among vendors and bring stability to the procurement process?**

As I stated in my response to an earlier question, I intend to control costs, assure vendor interest, prevent overruns and belated changes in direction by insisting on thorough procurement planning. This will ensure that procurement efforts are strategically sound and cost effective, our solicitations are complete with clearly expressed requirements, reasonable production and delivery schedules, acceptable risk-levels for vendors, and include sensible criteria for vendor selection.

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11. **Mr McKean has stated that he wants the Postal Service to assist the Federal Government in combatting its deficit. In that regard, what role do you envision the Postal Service playing?**

The Postal Service is very much aware that it must manage its operations so as not to contribute to the general deficit situation which the Administration and the Congress are attempting to resolve. Currently, we estimate our net operating deficit for Fiscal Year 1987 will be approximately $440 million. We will take whatever measures necessary to improve this amount so that this deficit will be reduced to zero. Under the outlay accounting system used in the general federal budget, this improvement would reduce the outlay figure shown for the Postal Service by a corresponding amount of $440 million. The President's Fiscal Year 1987 Budget proposes additional unanticipated costs be placed on the Postal Service. We are reviewing those proposals to determine if, in a manner consistent with current law and our obligations to postal rate payers, the Postal Service may further assist in deficit reduction efforts.

12. **Is the Postal Service going to accept CBO/OMB's decision that Postal Service revenues are not exempt from cuts under Gramm-Rudman?**

I am confident that the financial results reflected in the Postal Service Fund will be improved by at least $50,908,000, the amount mentioned with respect to the Postal Service Fund in the sequester order, in Fiscal Year 1986.

13. **Under Gramm-Rudman for Fiscal Year 1986, funds from the Postal Service's operating budget will be sequestered. Has any decision been made regarding how and where these cuts are to be implemented?**

In order to achieve its commitments for Fiscal Year 1986 and to postpone the need for the next general rate filing as long as possible, the Postal Service is trying to achieve efficiencies and savings in a number of areas. Some of the matters receiving a close look include more effective use of automation, improved supervision, better control of

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administrative overhead costs, more efficient processing methodologies, and improved transportation scheduling.

14. **As you know, the Postal Rate Commission is currently conducting a study, at the request of this committee and a Senate committee, to study the use of "Preferred Rate" mail. Do you anticipate any problems in responding to the Postal Rate Commission's request for information and records for this study?**

The Postal Service has already begun furnishing information to the Commission for the purposes of this study, and has committed itself to providing most of the types of information that the Commission has indicated might be useful. Some problems have been encountered that arise out of the Postal Service's regulations regarding mail security and privacy, but we are confident that these problems can be resolved in a manner that protects security and privacy while meeting the purposes of the study.

15. **Mr. Carlin brought overtime cost overruns under control by hiring full-time permanent employees rather than relying on continued use of overtime. Do you plan to continue this policy?**

The Postal Service fully intends to keep overtime costs under control by use of both full time employees and casual employees. In order to ensure that these controls are in place, we have instituted dollar budgets for the field rather than the long-time practice of budgeting work hours only. By using dollar budgets to measure the performance of our field managers, we feel that this will force our managers to think in terms of getting the job done at the least cost per hour possible rather than only looking at the hours that they might need to do their job.

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ADDITIONAL QUESTIONS FOR MR. CASEY

1. **When were you first contacted about becoming Postmaster General? Who contacted you?**

I was first contacted in late fall of last year. The initial contact was made by the executive recruiter retained by the contingency committee of the Governors of the Postal Service

a. **Who actually offered you the position of Postmaster General?**

Chairman McKean offered me the position, subject to agreement by the other Governors

b. **What were you told about your predecessor Paul Carlin, and why he was being dismissed?**

I was not given any specific reasons for the Governors decision to remove Mr. Carlin. I was told that while the Postal Service had made significant strides during the past year to reduce its deficit position, the Governors believed more could have been accomplished with stronger leadership from the top. I was also advised of the Governors' perception that reductions were needed in various management levels and of their dissatisfaction with the proposal of Mr. Carlin to accomplish those reductions.

2. **Did you meet with all the Governors or with only some of the governors prior to your acceptance of the positions? If only some of the Governors, which ones? When did these meetings take place?**

I met with the Governors' contingency committee which consisted of Board of Governors' Chairman John McKean and the now Vice Chairman Peter Voss. This meeting took place on January 2, 1986.

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3. **Did you speak to any of your predecessors, including Postmaster General Bolger, prior to your accepting the position? If not, why didn't you?**

No. I did not meet with my predecessors prior to accepting the position of Postmaster General. Following my discussions with the Governors, I understood what they expected from a new Chief Executive Officer and I accepted the job with the belief that I had the experience and ability to serve as the head of the Nations postal system. There was simply no need to meet with former Postmasters General. Since assuming the position on January 6, I have met with Mr. Bolger and have had correspondence with Mr. Carlin, who I will be meeting with in the near future.

4. **Were you told by the Governors that when you became Postmaster General that you were expected to dismiss or reassign any particular persons at the Postal Service? If so, which people and what are their positions?**

While I had some discussions with the Governor's on the experience, talent, and management skills of some Postal Service officers, I was not instructed to remove or reassign any employee. All of the personnel decisions made since January 6 were made by me based on my assessment of the individuals concerned.

5. **When you accepted the job of Postmaster General, did you tell the Chairman of the Board or the Board that you would brook no interference from the Board in running the Postal Service the way you saw fit?**

No. However, the Governors and I did agree that, as Chief Executive Officer, I would have the management freedom to make decisions I believed necessary to ensure that the mailing public was served by an efficient, affordable, and well-managed postal system.

6. **Mr. Casey, you signed the Annual Report of the Postmaster General for 1985. Weren't many accomplishments detailed in this report accomplished under Postmaster General Carlin?**

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Yes. The Annual Report is a fiscal year document and Mr. Carlin was Postmaster General for the last three quarters of Fiscal Year 1985. Mr. Bolger was Postmaster General for the first quarter.

a. **Why did you sign a report of achievements and events that took place under Mr. Carlin? Who told you you had to sign this report?**

The Annual Report was released to the public in January, 1986. I was Postmaster General in January and, as the responsible chief executive officer, I signed the Report. It was my decision to do so.

b. **Given all the accomplishments outlined in the report you signed, why has it been necessary to reshuffle what appears to be a highly successful organization, including forcing out successful and experienced officials like Mr. Jellison?**

As Chairman McKean stated in his testimony, the recent accomplishments of the Postal Service have been significant. However, the Governors believed they could have been greater and accomplished in a more timely and efficient manner. For this reason the Governors made the decision to install a new Postmaster General. My changes in management positions were not based on a desire to "force" anyone out of any position. After discussions with the individuals concerned, I simply made the decision that changes were necessary.

7. **As we look through your Accounting period III report, we notice you show that the revenues are 1.3 percent over plan and expenses are 1.4 percent below plan. This results in a $190 million surplus greater than plan for the first three accounting periods. If this trend continues through the balance of 1986, we would have a significant surplus since your plan assumed no surplus and no deficit for FY 1986. Is it correct that these figures show that the financial position of the Postal Service is much better than planned break-even?**

In reviewing our strong performance to date (Accounting Period 4), we would be cautiously optimistic in projecting a surplus for Postal Fiscal Year 1986 for the following reasons:

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1. The performance to date includes some favorable timing differences between actual and plan, particularly in field non-personnel and Headquarters expense categories which will normalize to some degree later in the year.

2. Due to the seasonal nature of our business, the current operating plan reflects a loss for Accounting Periods 4-13 (December 24, 1985 through September 26, 1986).

So far this year, the revenue and mail volume growth trends are favorable. However, it would be premature at this time to project a surplus without a certain degree of caution resulting from the above reasons.

8. **Who do you think should run the Postal Service on a day-to-day basis -- the Governors or the Postmaster General?**

The Postmaster General, as the Chief Executive Officer, should be responsible for the daily operations of the Postal Service.

9. **In the companies with which you have been associated, do the Boards of Directors have their own lawyers and consultants like those which have been retained by the Postal Service Board of Governors?**

It is a very unusual practice in the private sector for Boards of Directors to engage the services of outside attorneys or other consultants.

10. **There has been conjecture in the press that your appointment as Postmaster General would work to the benefit of one of the competitors for our multiline machines since your former associate, the Chairman of American Airlines, is on the Board of Directors of one of the competitors. How do you propose to prevent this relationship from affecting this very important competitive procurement?**

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Robert Crandall, current Chairman of American Airlines, is on the Board of Directors of one of the companies seeking the competitive award of the contract for production of multiline equipment. I have known Mr. Crandall, both professionally and socially, for many years. However, his service on the Board of this company long predates my selection as Postmaster General, and my relationship with Mr. Crandall will have absolutely no bearing on the selection by the Postal Service of multiline equipment. I have not discussed this procurement with Mr. Crandall and I have no intention of doing so.

11. We also have a few questions regarding your previous experience as President of the Times-Mirror Company and your subsequent membership on the Times-Mirror Board of Directors. As you may be aware, there are several pending postal cases involving the newspaper industry. One is a complaint case brought by a third-class mailer challenging the second-class rate treatment given to newspaper "Plus" issues. The Postal Rate Commission has just issued a recommended decision to discontinue that practice, a decision that is pending before the governors. The other case is a complaint filed by the American Newspaper Publishers Association challenging the use of detached address labels for third-class mail.

a. Have you yet resigned your Times-Mirror directorship?

Yes.

b Are you a stockholder of Times-Mirror? If so, what disposition do you intend to make of that stock?

No.

c. Do you intend to excuse yourself from participation and involvement in the two administrative proceedings currently pending, as well as any other issues that may arise during your tenure as Postmaster General where there is a conflict of interest between the Postal Service, newspapers, and mailers?

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To date, I have not sat down with the General Counsel of the Postal Service to discuss with him the appropriateness of my participating in the two matters cited. I intend to seek his advice in the near future. I can assure the Committee that I will not participate in any rate discussions, or any other matters pending before the Board of Governors, if there is any question of a possible conflict of interest.

12. In previous testimony before the Committee, the Postal Service has described a mid-course correction for the automation program as it relates to Zip+4. This testimony described competitive testing of machines capable of reading the entire letter address, with contract awards late this summer based on a return on investment model. Do you confirm that this competitive program is still the plan of the Postal Service?

Absolutely. Only a fair and open competition will guarantee the Postal Service the best possible quality equipment at the best possible price.

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QUESTIONS FOR POSTAL HEARING

2/5/86

(SUBMITTED BY CONGRESSMAN DYMALLY)

The following questions are suggested to aid the Committee in understanding the position of the Postal Service concerning rate increases for nonprofit mailers:

With the current appropriation of $748 million for revenue forgone, preferred-rate postage is now at step 16 on the phasing schedule, as I understand it. That means, for example, that nonprofit groups (such as the National Federation of the Blind) now pay 100% of the costs attributed directly or indirectly to their mailings. However, they do not pay any overhead costs (or institutional costs) for operating the Postal Service. Am I correct in this understanding?

> Based on an $820 million appropriation level in the legislation pending as of the Board meeting of December 3, 1985, the Governors adjusted preferred rates to the step 16 level, covering attributable costs, effective January 1, 1986. Under the law, what the preferred-rate mailers did not have to pay at that point is the difference up to the full amount they would have had to pay if the subsidy statutes did not exist, in which case they would have been paying the unsubsidized rate levels which the other mailers not entitled to subsidies were paying. Thus, strictly speaking, the upper reference point is the unsubsidized rate level, not particular kinds of costs.

As I read section 3626 of the Postal Reorganization Act, the purpose of the revenue forgone appropriation is to pay the Postal Service's overhead costs that would otherwise be charged directly to the groups who are allowed to mail at reduced rates. In fact, I believe the law states that the preferred-rate mailers are only required to pay their attributable costs. Their rate is not supposed to include overhead. Isn't that the principle that was followed in the law in establishing preferred-rates of postage?

The purpose of the appropriation is to enable Congress to pay part of the postage which preferred-rate mailers would have had to pay if such subsidies had not been authorized. Without the statutory subsidy authorizations, these mailings would not have separate rates or separately attributed costs of their own but would fall under the appropriate unsubsidized mail category. The law contemplates that these mailers will pay whatever portion Congress fails to appropriate. Currently, Congress has authorized, but does not always approve, appropriations which would be sufficient to hold the preferred-rate mailers' portion of their postage to the level which equals the attributable costs of their mail.

I would like to understand on what basis the Governors of the Postal Service decided to make an increase in preferred-rate postage which they announced in January. I think all of us in Congress felt that it was enough to raise the nonprofit postage by some 23% on the first of January. But that apparently reflected the appropriation of $748 million for revenue forgone. So everyone understood that rate increase and knew well in advance what the increase would be. Then along comes the Governors of the Postal Service and announce even another increase before the ink had dried on the last announcement. So all of a sudden these nonprofit groups are hit with a second very substantial increase. How could that be justified since Congress had appropriated enough money to pay for the rates which became effective on the first of January?

Consideration of a further preferred-rate adjustment along the lines first announced at the January Board meeting has been postponed to the March meeting. In their resolution of December 3, 1985 concerning step 16 rates, the Governors specifically related that rate level for the period from January 1 through the end of the year to an appropriation of $820 million then pending. The $748 million level was the amount which the Postal Service had stated would have been needed if step 16 rates were to be in effect throughout Fiscal Year 1986. In the fall of 1985 as soon as Congress began to consider delaying until January 1 the adjustment from step 14 rates then in effect to step 16, the Postal Service advised all of the interested Congressional committees that the appropriation amount needed to support such a plan would be $820 million. When Congress delayed the

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step 16 rates until January 1 and then eventually provided an appropriation below $820 million, the appropriation was then inadequate to support step 16 rates and consideration of a further adjustment became necessary.

If the law provides that the groups entitled to reduced postal rates do not pay the overhead costs of the Postal Service, what costs would the mailers be paying if their rates had been raised above step 16 as the Governors voted in February? Isn't it a fact that these groups will be charged a portion of the Postal Service's overhead?

The law provides that the Governors may adjust the preferred rates to make up amounts Congress fails to appropriate on the preferred-rate mailers' behalf. Preferred rate mailers have not paid postage sufficient to cover even the attributable costs of their mail for Fiscal Year 1986 at the level determined in the most recent rate case, since they were charged at step 14 on the rate phasing schedule from October 1 through December 31, 1985. Both the decision to provide revenue forgone appropriations at the $748 million level under the continuing resolution and the further decision to require an additional reduction pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985 have had the effect of providing less support on behalf of preferred-rate mail than was authorized and would have been needed to maintain step 14 rates through December and step 16 rates for the rest of the year.

What is the position of the Postal Service concerning the obligation to have any rate increase reviewed by the Postal Rate Commission? I am concerned that the mailers who are entitled to reduced rates should also be entitled to a review of their rates by the Postal Rate Commission. How is it that the Governors can simply meet and vote to increase rates for these groups when every other mailer is afforded the protection of a review by the Postal Rate Commission? Leaving those groups at the mercy of the Postal Service seems inconsistent with the policy of the Postal Reorganization Act to give the mailers the protection of the Postal Rate Commission's review. Will you submit further rate increases for these groups to the commission?

The preferred-rate mailers have already had the benefit of the Postal Rate Commission's participation in the determination of their rates. The Commission's

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proceedings considered both of the parameters which set the boundaries of the preferred rates, namely the attributable costs of preferred-rate mail and the rates for unsubsidized mail. The Congress controls the decision of how much of a subsidy to provide between these two parameters, by setting the appropriation level. The Postal Service's role in calculating how much of an adjustment would be required to reflect the Congressional appropriation decision, given already determined attributable cost and unsubsidized rate levels, is mechanical. On a number of occasions Congress has failed to provide the full authorized appropriation amount, and further participation by the Commission has never been needed. Further proceedings before the Commission would be superfluous and from a temporal standpoint would be self-defeating, since the Congress considers funding for preferred-rate subsidies strictly on a fiscal year basis and procedural constraints would prevent the Commission from acting before very late in the fiscal year, if then.

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ALLIANCE OF NONPROFIT MAILERS

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January 30, 1986

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American Heart Association
American Institute of Architects
American Institute of Certified Public Accountants
American Library Association
American Management Associations
American Medical Association
American Planning Association
American Red Publishing Co.
AMPTS National Service Foundation
Arthritis Foundation
Association of the U.S. Army
Boys Club of America
Buckner Baptist Benevolences
Camp Fire
Cancer Care, Inc.
CARE
Christian Children's Fund
Cystic Fibrosis Foundation
Deafness Research Foundation
Denver Art Museum
East Tennessee Children's Hospital
First Assembly of God Church, Inc.
Foundation for Christian Living
Foundation for National Progress
Goodpasture Associates, Inc.
Hazelden Foundation
Holt Land Christian Mission International
International Association of Fire Fighters
Jewish Braille Institute of America, Inc.
Juvenile Diabetes Foundation
Little City Foundation
National Association for the Advancement of Colored People
National Association for Sickle Cell Disease, Inc.
National Association of Public Television Stations
National Audubon Society
National Farmers Union
National Health Council
National Jewish Center for Immunology and Respiratory Medicine
National Multiple Sclerosis Society
National Parkinson Foundation, Inc.
National Society to Prevent Blindness
National Trust for Historic Preservation
Natural Resources Defense Council
The Navigators
Navy League of the U.S.
New York Society of Certified Public Accountants
OMS International, Inc.
Optical Society of America
Paralyzed Veterans of America
Plainedge Public Library
RP Foundation Fighting Blindness
Salvation Army
Save the Children
Sierra Club
Society of American Military Engineers
Society of Automotive Engineers
United Cerebral Palsy Associations, Inc.
Volunteer - The National Center
World Wildlife Fund
YMCA of the USA
YWCA of the USA

President
Wayne E. Shirley
Vice President and Treasurer
Joe Thomas
National Wildlife Federation
Secretary
Bobbie J. Kilberg
Legislative Consultant
Honorable James W. Haley
Executive Director
Dan Doherty

The Honorable William D. Ford
Chairman
Committee on Post Office & Civil Service
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

The Alliance of Nonprofit Mailers, which represents 80 organizations with more than 43 million members and volunteers in 86,000 chapters and affiliates across the country, applauds the House Post Office and Civil Service Committee and its postal subcommittees for calling this prompt hearing into recent developments at the U.S. Postal Service.

While the Alliance is a concerned observer with respect to the managerial changes recently undertaken at the U.S. Postal Service, its purpose in writing to you relates to the simultaneous turmoil in the private nonprofit sector created by the burdensome size of recent and threatened postal rate increases and the great uncertainties that exist concerning future rates. Our members and other nonprofit organizations cannot effectively plan or budget when they do not know what their postal charges will be week-to-week -- almost day-to-day.

Nonprofits did not object strenuously last year when Congress voted to jump their postage charges to Step 16, so-called full rates, 18 months earlier than contemplated by the authorizing legislation -- the Postal Reorganization Act of 1970. And we appreciated the concern the Congress exhibited by restraining preferred rate increases through the first quarter of FY 1986. Had that intent prevailed and the $820 million voted for revenue forgone stood, preferred rate mailers would still have made a contribution of more than $100 million to this Nation's vitally important deficit reduction program in the current fiscal year.

Rates now charged nonprofit mailers reflect that intent, and they represent January 1, 1986, increases of 23 to 41 percent in third class and an average of 32 percent in second class.

Absorption of such an increase in an important cost segment would not be easy for any business. It is most difficult for nonprofits.

But the fact is that nonprofits face additional rate increases that would, ironically, impact the very types of private, voluntary organizations currently being encouraged by the President and others to pick up the slack created by the Federal Government's other cuts. Indeed, the Governors of the Postal Service voted on January 7, 1986, to impose yet another increase of approximately 10 percent on nonprofit mail. While that increase was rescinded -- and, again, nonprofits applaud this Committee's role in that action -- there remains an unaddressed shortfall from the Postal Service's estimate

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of FY 86 revenue forgone needs. And the spectre of an added $32 million reduction resulting from the Gramm-Rudman process confronts us in the very near future.

Mr. Chairman, if the rates charged nonprofits are again adjusted to recapture these cuts it would mean another increase of 14 percent, on top of the January 1 increase Congress intended and nonprofits accepted with grace. The impact would be devastating to the private, voluntary sector, to education, to the diffusion of scientific and agricultural knowledge and information, to veterans, the aged, and to America's churches, among others.

The Nation would suffer.

The Alliance of Nonprofit Mailers does not believe that Congress wants or intends such an outcome. Indeed, you, as the Chairman of the House Committee, and Senator Ted Stevens, Chairman of the Senate Subcommittee, already have directed that a study proposed by last year's yet-unpassed Reconciliation Bill be undertaken to quickly recommend ways of reducing the revenue forgone outlay. The Alliance stands ready to cooperate with the Postal Rate Commission, and with the Congress, in that endeavor. Our organization has considerable familiarity with and respect for the PRC, having actively intervened before that body in the rate-making process.

While we believe that the importance of nonprofit America to the nation as a whole warrants appropriations sufficient to forestall further rate increases, and urge the Congress to vote such funding, we sincerely believe that further rate increases, even in the absence of a supplemental appropriation for the current fiscal year, are unnecessary.

Section 3627 of title 39 does not <u>require</u> the Governors to increase postal rates in the presence of an appropriations shortfall. It is permissive in that respect. As of the end of its third accounting period -- generally corresponding to its first quarter for FY 86 -- The U.S. Postal Service reported an accumulated surplus of $479 million so far this year. It may be an enterprise in turmoil, but that does not appear to be financial turmoil.

In view of the expressed intent of the relevant Senate and House Chairmen to obtain the recommendations of the Rate Commission and to act during the FY 87 Budget cycle just begun, the Alliance firmly believes that further rate increases for qualified nonprofit organizations should be put on hold pending the outcome of this year's deliberations.

Sincerely,

Clyde E. Shorey, Jr.

Clyde E. Shorey, Jr.
President

CES/laf

cc: The Honorable Ted Stevens

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